Roc Oil Company Limited

ABN 32 075 965 856

ANNUAL REPORT 2006

Global ROC

English

The world in which ROC operates is diverse. During 2006, the Company's operations ranged from onshore England and Angola to shallow waters offshore Australia and China with non-operated activities in deep water offshore West Africa and the North Sea. As a result of this range of activities, ROC comes into contact with different people, different customs and different cultures. Despite this diversity, some things are common to all parts of the world. One of these things is the ability to distinguish between promises and performance. Everyone recognises that, on both a personal and a corporate level, promises are easy to make but sometimes hard to keep. However, unless promises are translated into performance, they mean nothing. During 2006, ROC's performance delivered on many of its promises. During 2007, ROC will do more of the same.

Portuguese

O mundo em que a ROC opera é diversificado. Durante 2006, a Empresa teve operações em diversos locais desde operações em terra em Inglaterra e Angola a operações em águas rasas da Austrália e da China, tendo também tido actividades não-operadas em águas profundas ao largo da costa da África Ocidental e no Mar do Norte. Como resultado desta variedade de actividades, a ROC entra em contacto com vários tipos de pessoas e diferentes tipos de costumes e de culturas. Apesar desta diversidade, algumas coisas são comuns a todas as partes do mundo. Uma delas é a capacidade de distinguir entre promessas e desempenho. Todos reconhecemos que, quer a nível pessoal quer empresarial, as promessas são fáceis de fazer, mas por vezes difíceis de cumprir. Contudo, se as promessas não forem traduzidas em desempenho, nunca terão significado. Durante 2006, o desempenho da ROC viu concretizadas muitas das suas promessas. Durante 2007, a ROC voltará a fazer o mesmo.

Mandarin

ROC在全世界的作业环境是千差万别的。2006年，公司的作业范围从英国和安哥拉的陆上作业延伸到澳大利亚和中国的浅海作业，还有西非和北海的深海活动(非作业者)。通过范围广泛的作业，可以接触不同的人、不同的风俗、不同的文化。不过，在这个千姿百态的世界上，仍然会有一些共同的东西。其中之一，就是大家都能分辨许诺和兑现，都知道许诺容易，兑现有时却很难，从个人以至企业都是如此。不过，许诺之后如果不能兑现，那样的诺言是毫无价值的。在2006年，从本公司的业绩可以看到许多诺言已经兑现。在2007年，公司还会将更多的诺言付诸实施。

French

Le monde dans lequel ROC exerce ses activités est divers. Au cours de l'année 2006, les opérations de la société s'étendaient, à terre, de l'Angleterre à l'Angola, jusqu'aux eaux peu profondes au large de l'Australie et de la Chine, avec des activités d'exploitation indirecte en eaux profondes au large de l'Afrique de l'Ouest et en mer du Nord. En conséquence de cette gamme d'activités, ROC entre en contact avec des gens, des coutumes et des cultures différentes. Malgré cette diversité, toutes les parties du monde présentent des dénominateurs communs. L'un d'eux est la capacité de faire la distinction entre promesses et performance. Tout le monde reconnaît qu'au niveau personnel comme au niveau de l'entreprise, les promesses sont faciles à faire mais parfois difficiles à tenir. Cependant, tant qu'elles ne se traduisent pas par la performance, les promesses ne signifient rien. Au cours de l'année 2006, ROC a, par sa performance, concrétisé nombre de ses promesses. En 2007, ROC continuera sur cette voie.

Spanish

El mundo en que opera ROC es un mundo variado. Durante 2006, las operaciones de la Compañía abarcaron desde tierra firme de Inglaterra y Angola a aguas litorales poco profundas de Australia y China, con actividades no operadas en las aguas litorales profundas de Africa y el Mar del Norte. Como resultado de esta variada gama de actividades, ROC entra en contacto con diferente gente, diferentes costumbres y diferentes culturas. A pesar de esta diversidad algunas cosas son comunes en todas partes del mundo. Una de ellas es la habilidad de distinguir entre promesas y realización. Todo el mundo reconoce que tanto a nivel personal como empresarial es fácil hacer promesas, pero cumplirlas es a veces difícil. Sin embargo, a menos que las promesas se transformen en realidad, no significan nada. Durante 2006, las realizaciones de ROC cumplieron muchas de sus promesas. Durante 2007, ROC hará más de lo mismo.

Arabic

إن العالم الذي تدير فيه ROC أعمالها مترامٍ ومتنوع، فخلال العام ٢٠٠٦ شملت عمليات الشركة مناطق تراوحت من أراضي إنكلترة وأنغولا وصولا إلى مياه أستراليا والصين الضحلة، هذا بالإضافة إلى نشاطات غير تشغيلية في المياه العميقة لساحلٍ غرب إفريقيا والبحر الشمالي. نتيجة لهذه النشاطات المتنوعة، تحتّك ROC مع أناس من جنسيات وخلفيات ثقافية متعددة. لكن بالرغم من هذا التنوع هناك مفاهيم مشتركة بين جميع أنحاء العالم، منها القدرة على التمييز بين الوعود والأداء. فكل شخص يدرك أن إطلاق الوعود سواء على صعيد الفرد أو الشركات أمرٍ سّهل لكنه صعب التحقيق أحياناً. إنّ الوعود إن لم تترجم إلى أداء تبقى وعوداً فارغة. خلال العام ٢٠٠٦ حققت ROC من خلال أدائها العديد من وعودها، وخلال العام ٢٠٠٧ سوف تمضي قُدماً على هذا الخط.

Corporate Goal

To make a lot of money for all shareholders by establishing a substantial reserve base and sustainable production revenue.

In the 14 months from 1 January 2006, ROC issued 142 Stock Exchange Releases. This news flow was driven by two main elements: a very high level of corporate activity and a passion for keeping the market fully informed.

This level of news distribution poses an obvious problem. What can you say in a printed Annual Report, distributed by mail, that will ensure that it is relevant and readable? Last year's Annual Report said much the same thing. We are still not sure that we know the answer. This 2006 Annual Report is part of our continuing attempt to find a solution to the problem. This year, a lot of words have been cut out. A fresh format has been adopted. It is meant to be interesting, not gimmicky. A great deal of effort has gone into avoiding clichés. One thing hasn't changed: the hallmark of candid comment has been retained.

For better or for worse, the compositional elements of this report have been done in-house. As always. There has been no input from third-party public relations or design companies. Therefore, if this Annual Report falls short of the clarity it targets, there is no doubt where the blame resides.

> "What really takes the time is never what you put into a book but what you leave out. Last month, for example, I made considerable progress: I cut out a thousand words."
>
> **Richard Hughes**, 1971, author of '*High Wind in Jamaica*' and '*The Human Predicament*'.

Contents

Cover: Testing the ROC-operated Wei 6-12 South-1 oil discovery in the Beibu Gulf, offshore China.

Annual General Meeting
11.00am, Thursday 10 May 2007.
The Museum of Sydney,
Corner Phillip and Bridge Streets,
Sydney NSW 2000

Chairman's Report

Last year in my Chairman's review, I said that 2005 represented the culmination of eight years of hard work by the executive team, employees and the Board of Directors, because it had laid the foundation for a potentially bright future. During 2006, that future shone more brightly. The translation of the Company's promise into performance is one of the key themes of this year's Annual Report.

Last year, I also said that, by many measurements, ROC's activities hit record levels in 2005. During 2006, several new records were set. A considered view of the Company's planned activities for 2007, together with the quality of its portfolio of projects, suggests that the coming year may also see new benchmarks established, particularly with regard to production and sales revenue.

As ROC made the transition from pure exploration company to a balanced exploration and production company, some of its corporate philosophies necessarily changed, although the core strategies remained unaltered.

One of the changes related to the adoption of the '*successful efforts'* accounting policy for exploration and evaluation (E&E) expenditures, announced in March 2006. Under this policy, ROC expenses all E&E costs as incurred except for successful exploration well costs, exploration acquisition costs and pre-development expenditures. This change does not have any relevance to ROC's business activities or cash flow but it does have a significant effect on non-cash items, such as Net Profit After Tax, even when Trading Profit and Cash Flow from Operations are robust. Shareholders are encouraged to look at the Operating/Trading Profit result to better gauge the company's underlying performance. This is because ROC is an aggressive exploration company. This means that every year is likely to see a substantial amount of E&E expensed, even if the results of the expenditure are encouraging. For example, of the approximate $69 million expensed in 2006, approximately $37 million (54%) related to general Geological and Administrative work in the Beibu Gulf in China, where a potential development is considered likely, and a large seismic survey in Angola which has identified a number of encouraging new prospects and leads that are yet to be drilled. Under the previous accounting policy, these expenditures would have been capitalised. *Successful efforts* is a particularly rigorous accounting procedure which has the potential to create considerable volatility in reported accounting profits. However, for a company like ROC, it is considered an appropriate policy given the growth and nature of the Company's business and the desire to align ROC's practices with best international business standards.

ROC's somewhat conservative approach, implied by the adoption of successful efforts, is further emphasised by the Company's hedging philosophy. The purchase of the Zhao Dong asset in China was agreed in June 2006 when oil prices were near historical highs. As a direct consequence of the purchase, the Company hedged approximately 3.9 million barrels of its production,

equivalent to 40% of its anticipated net proved and probable production over the next five years from the Zhao Dong C and D fields. This hedging was based on the then prevailing forward curve which represented an average Brent oil price of US$72.33/BBL. This turned out to be a prescient and somewhat fortunate move as the oil price quickly sank back towards US$50/BBL.

The Company will continue to monitor its hedging position so that, while the majority of its production will remain exposed to oil price movements, an appropriate portion will be hedged.

Once again, ROC's workforce turned in a sterling performance. When a Company goes through a transformational process, employees and consultants are subject to increased pressure: they are stretched to their full capacity. When a workforce doubles in size through the acquisition of a significant asset outside Australia, the degree of stretch is greater.

The consequences of such an energetic, high work ethic and high growth environment can be particularly demanding. Those demands do not just fall on the employees and consultants, but also on their families and friends. Therefore, this year I would like to not only thank the entire ROC workforce for a superlative effort but also thank all their loved ones for the support they provided during the last 12 months.

Andrew Love.

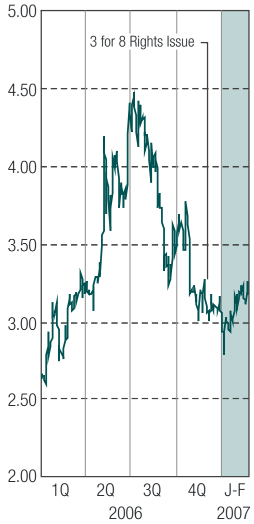
Andrew Love
Chairman

"This sequential growth strategy means that the big growth year which has just gone will be followed immediately by another with equal growth potential."

Stock Exchange Release 31.1.2007

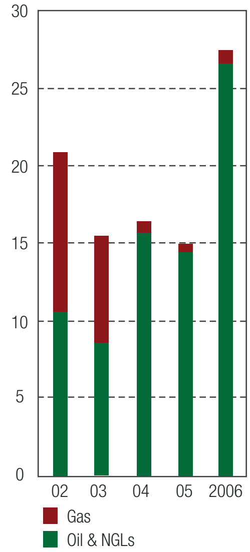
Financial Overview

ASX Share Price
($/Share)

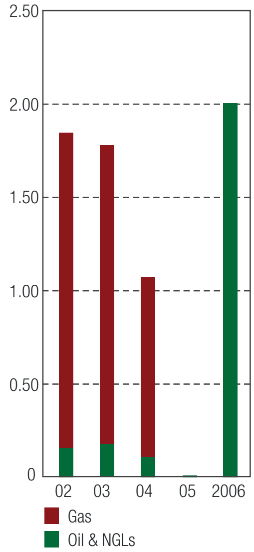


Share Price prior to 3 November not adjusted for Rights Issue

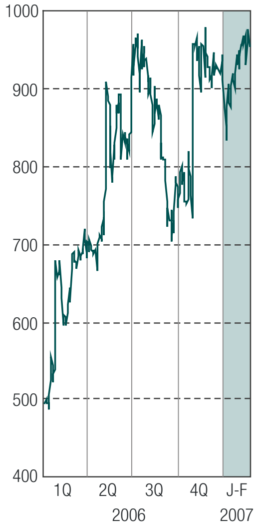
Gas v Oil 2P Reserves
(MMBOE)



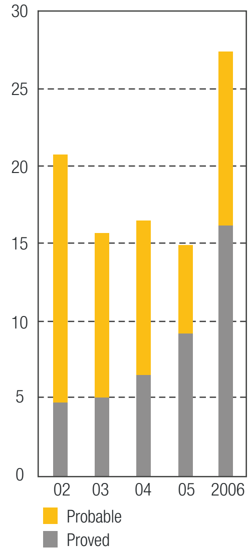
Production
(MMBOE)



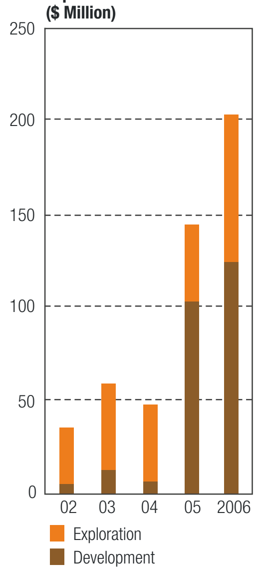
Market Capitalisation
($ Million)



2P Reserves
(MMBOE)



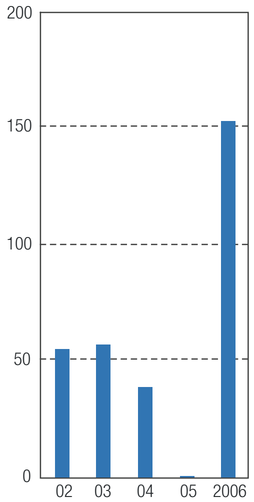
Exploration & Development Expenditure
($ Million)



In 2006, ROC delivered on some of the rhetoric. The results defy statistical comparison with the previous year. A new platform of reserves and revenue has been constructed. The challenge is to keep adding value through a combination of patient field development, aggressive exploration, and in special circumstances the opportunistic acquisition of assets within our core region. Given the nature of ROC's portfolio there is every reason to believe that the challenge will be met.

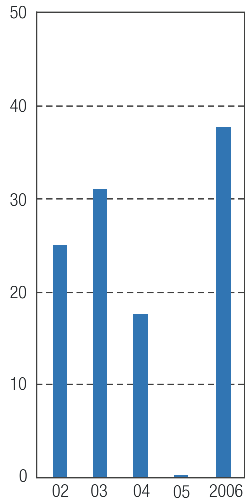
Stock Exchange Release 28.2.2007

Sales Revenue
($ Million)

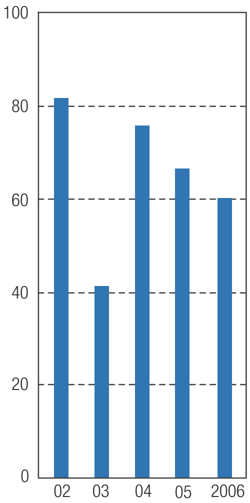


Excluding Hedging

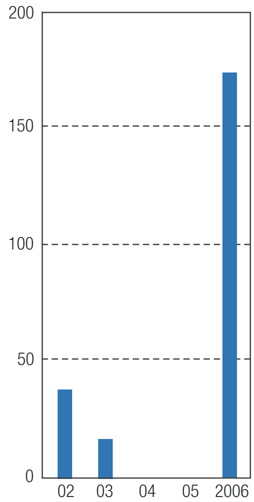
Trading Profit
($ Million)



Cash
($ Million)



Debt
($ Million)



CEO's Report

What a difference a year makes. The previous year was good. This year was better. Twelve months ago, it was promises of production. Now, it is counting the barrels produced. Two million. From a cold start. A corporate transformation. From a pure exploration company to a balanced exploration and production company. Performance starting to replace promises. Details vary. Some disappointments. More good news than bad. Much more. All documented in more than 140 Stock Exchange announcements. What more can be said that is new and/or interesting? Well, there are at least six points.

People. People. People. Shareholders. Employees. Consultants. Host governments. Local communities. Towards 20,000 shareholders. More than 200 strong workforce. Six host countries. Lots of local stakeholders. All inter-relating. Generally very well. Frequent challenges. Occasional crisis. No lasting problem. Lots of hard work. Long hours. Intense at times. Almost always fun. Stimulating. Rewarding. Not just packages and money. Creating a company where there used to be a blank page. A lot remains to be written. A very big 'thank you' to all who have contributed to the story so far, particularly during 2006 – the busiest and most productive year yet. Roll on 2007. More of the same.

Many decisions. Some mistakes made. None serious. Much learned. Same every year. Not same mistakes. Same learning process. Look back and learn. Don't look back and blame. No material mishap. Excellent HSE&C performance. Especially given project spread, type and diversity. One niggling misjudgment pertaining to UK private investors during an otherwise extremely successful Rights Issue. This minor matter, in the overall corporate context, could have been handled better. Not a major issue Company-wide. Just a frustrating example of complex legislation impacting on a small number of individual shareholders. Why bother mentioning it? To highlight one fact: retail shareholders are important to ROC. That is why we take their calls. Try to respond to their enquiries. ROC tries to treat all shareholders the same. Big institutions. Mums and dads. Very different in most respects. All the same in one important respect. Money invested. ROC shares bought. That is why the shareholders' playing field needs to be kept level. Best achieved by prompt and candid Stock Exchange announcements.

A year when the media flirted with the industry. The year '*Peak Oil*' became a cocktail party discussion. Scary concept? Not really. Oil prices slid from near US$80/BBL to threaten US$50/BBL. *Peak Oil* disappeared from the frontline public view. Truth is: *Peak Oil* is just as relevant/irrelevant now as it was when you last saw it in the media. ROC thinks that it is not as relevant as the doomsayers suggest. Regardless of *Peak Oil* fashion appeal, oil remains a very scarce and very precious commodity. That is why it is always good to find more.

Parallel agendas. Within joint ventures. With governments. Throughout the workforce. Difficult to

progress projects otherwise. Personal relationships are very important. Likemindedness is more important. ROC operates for several large State-owned oil companies: Sonangol, PetroChina and Sinochem plus, effectively, CNOOC. Key partners. National oil companies are in the ascendancy. They are more active and reach further than ever before. Size and culture very different to those of ROC. Common goals cut through the differences. Unique position for a small independent. Privileged position for ROC.

Be wary of statistics. Very wary. In terms of 2006 production, ROC's ranks fourth among publicly-listed, non-diversified, Australian oil companies. That is good. Particularly given that for the first 1½ months of 2006 ROC had zero production. That is growth. But the statistic says more about the size of the Australian industry than the size of ROC. ROC ranks third in terms of foreign operators of oil production offshore China. That is good too. But this statistic says more about the relative scarcity of foreign oil producers in China than ROC's standing in that country.

Long way to go. There is no danger of confusing progress and activity with final success. ROC is yet to find the big discovery that catapults the Company through many corporate ranks. The Zhao Dong purchase is the closest ROC has come to a legacy asset. More of the same needed. During 2006, ROC seemed to travel a great distance, but it was only from tiny to small. The journey has hardly begun. Long way to go.

Dr John Doran
Chief Executive Officer

Numbers

2MMBO The amount of oil produced by the Cliff Head Oil Field during the eight months from first oil on 1 May to end-2006.

2MMBO ROC's share of production from all of its assets during 2006.

0 The number of operational lost time incidents relating to ROC's worldwide activities including the 2006 seismic survey in Angola and the rapid transition to operator of up to 30,000 BOPD of production offshore China.

12 The number of landmines found and rendered harmless during the 2005 and 2006 seismic surveys in the Cabinda South Block, onshore Angola.

5,750 BOPD The collective flow rate from the three zones tested by ROC's Wei 6-12 South-1 oil discovery in the Beibu Gulf, offshore China.

20 The number of nationalities represented by ROC's workforce of employees, consultants directors and advisors.

32 The number of languages and regional dialects spoken by ROC's workforce.

5 The number of cyclones which disrupted ROC's 2006 drilling programme.

>30 The number of prospects and leads identified in the Cabinda South Block.

27 The number of horizons known to contain oil in the Zhao Dong Block in the Bohai Bay, offshore China.

"To ensure that the share price is not simply a captive of the oil price, the Company's 2007 drilling and new venture programmes have been designed on a scale that would allow the share price to disconnect from oil price trends... If the Company achieves a measure of success on these fronts, then, regardless of whether oil prices stabilise, weaken or strengthen, the share price would have the potential to jump ahead of the oil price trend line."

Stock Exchange Release 31.1.2007

Some of these numbers may seem obscure, but they nevertheless provide interesting insights.

16 The number of horizons that have produced oil in the Zhao Dong Block.

30 The number of productive wells currently in the C and D fields in the Zhao Dong Block.

25 The maximum number of trucks loaded in a day at the Cliff Head Oil Field, equivalent to 12,621 barrels.

$15 The approximate price of the component that failed at Cliff Head thereby causing a 7 day shut down.

>160 The number of government approvals required for the Cliff Head Oil Field development, offshore Western Australia.

>100% The increase in ROC's workforce as a result of the Apache China acquisition.

<1 The number of weeks it took to negotiate the Apache China Sale and Purchase agreement.

19,500 The approximate number of ROC shareholders as of 28 February 2007; up by almost 50% on mid-2006.

79% maximum share price rise since the beginning of 2006.

30% increase in share price between end-2005 and end-2006.

$977 million market capitalisation high during 2006.

86% Increase in market capitalisation between end-2005 and end-2006.

66.6% exploration drilling success rate (2 out of 3) in Block 22/12 since ROC farmed-in in 2002.

Highlights

Operational

- Record net ROC production of 2 MMBO from Cliff Head, Chinguetti and Zhao Dong C and D oil fields; compares to 13,635 BBLs produced in 2005.

- Year-end proved and probable reserves approximated to 26.5 MMBO with 5.3 BCF of gas up 83% and 56% respectively on the preceding year.

- Exploration and appraisal expenditure of $78.5 million resulted in a significant oil discovery, offshore China and the identification of encouraging prospects in Angola.

- First oil production from Africa as a result of production start-up at the Chinguetti Oil and Gas Field, offshore Mauritania.

- First significant oil production from Australia as a result of production start-up at the Cliff Head Oil Field, offshore Perth Basin. By end-2006, eight months after production began, the field had produced 2 MMBO.

- First oil production from China as a result of the Apache China acquisition.

- Second major phase of seismic acquisition was completed in the Cabinda South Block acquiring 254 sq km of 3D and 217 km of 2D.

- Two year contract signed for the Simmons Rig to commence drilling onshore Cabinda, Angola, in 2Q 2007.

- Interpretation of the extensive 2005 seismic survey onshore Angola identified a number of encouraging prospects.

- Development drilling conducted at the Blane Oil Field and the Enoch Oil & Gas Field in the North Sea. Both fields are scheduled to produce first oil during 2Q 2007.

- Wei 6-12 South-1 exploration well discovered a potentially significant oil field after drilling approximately 100 metres of net hydrocarbon pay, mainly oil. Testing of three zones in an adjacent sidetrack hole yielded a collective stabilised flow rate of 5,750 BOPD. A second, more deviated, sidetrack was also drilled and provided results in line with expectations.

- Subsequent to the Wei 6-12 South Discovery, government authorities in China extended the term of the Production Sharing Contract for Block 22-12 for a further two years.

- No operational Lost Time Incidents despite unprecedented expansion of activities.

Financial

- Trading profit of $37.9 million compared to $0.3 million profit in 2005.

- Net loss after income tax of $59.6 million after exploration expensed of $68.7 million, compared to a profit of $45.6 million in 2005 which included an $81.3 million profit from the sale of the Saltfleetby Gas Field in the UK.

- Record oil sales revenue of $151.5 million; compared to $0.9 million in 2005.

- Year-end cash position $60.6 million compared to $66.4 million at end-2005.

- Year-end debt of $173.7 million, directly attributed to the acquisition of the oil producing Zhao Dong Block offshore China.

- Year end oil price hedging comprised oil price swap contracts for 3.4 million barrels of oil over the period to 2011 at an average Brent oil price of US$69.95, together with oil price put option contracts for 0.35 million barrels at a Brent oil price of US$50.00/BBL and 0.1 million barrels at a Brent oil price of US$67.00/BBL for 1H 2007.

ROC expects to put a suitable oil price hedging arrangement in place that will reflect the magnitude of the transaction as well as the need to protect the downside oil price risk while at the same time retaining an appropriate amount of exposure to the oil price upside.

Stock Exchange Release 27.6.2006
Commenting on ROC's hedging strategy following the purchase of Apache China.

Corporate

- Placement of 28 million fully paid ordinary shares (14.9% of the Company's then issued capital) to UK-based institutional investors at a price of $2.71/£1.15 per share raised $75.9 million/£32.2 million before expenses. The placement's main focus related to exploration opportunities in Angola.

- ROC announced agreement to acquire a 24.5% operated interest in the Zhao Dong Block in the Bohai Bay, offshore China for US$260 million plus working capital adjustments. The transaction, finalised on 8 August 2006, provided a very substantial third leg to ROC's production portfolio and radically altered the Company's profile, particularly in China.

- A 12 month loan facility of US$275 million established with the Commonwealth Bank of Australia with regard to the cost of acquiring the Zhao Dong asset.

- ROC announced a fully underwritten 3 for 8 renounceable Rights Issue at $2.70 per share. This issue was very successful with more than 90% of shareholders taking up their rights to raise a total of $219 million. The purpose of the Rights Issue was to reduce debt incurred in relation to the acquisition of the Zhao Dong asset and to provide greater flexibility for the Company as it continues to build shareholder value.

- As a result of the Rights Issue, 81.2 million new ROC shares were allotted, which brought the issued capital of the Company to 297.8 million shares.

The first two months of 2007

- Appraisal studies of the Wei 6-12 South and Wei 6-12 oil fields in the Beibu Gulf were completed. Indications are that the most likely gross proved and probable reserves for the two fields is 19 MMBO. Two prospects which are adjacent to the fields offer the potential for the most likely total recoverable 2P estimate to increase to 29 MMBO. The potential upside for the two fields and two prospects is 37 MMBO. On this basis, the Joint Venture decided to initiate the Front End Engineering and Design phase. A Final Investment Decision is expected to be made in 2H 2007.

- The ROC-owned Explorer Rig departed Britain for Cabinda.

- The Zhao Dong Joint Venture and relevant government authorities in China approved a major development programme for the C and D, as well as the C4, oil fields. Collectively, the planned activities represent more than US$500 million of Joint Venture development expenditure over the next five years relating to the expansion of existing facilities, the design, construction and installation of new facilities and the drilling of more than 120 development wells.

"Listing ROC shares on AIM is the next logical step in the Company's growth strategy...... ROC's conveyor belt of projects runs from new ventures and exploration to mature production, in areas which appear to be of interest to UK investors, particularly West Africa where ROC has established a meaningful presence and a successful track record during the last five years."

Stock Exchange Release 7.9.2004
Commenting on ROC's listing on AIM in London 16 months before the January 2006 over-subscribed rights issue to UK which was essentially focussed on Angola.

"An overall take up of over 91% by eligible shareholders – including strong institutional support in the UK – makes for a successful Rights Issue."

Stock Exchange Release 4.12.2006
Commenting on $219 million Rights Issue.

Low Lights

- Production at the Chinguetti Oil and Gas Field underperformed, reserves were downgraded and the Joint Venture made an unexpected production bonus payment of US$100 million to the Mauritanian Government.

- 6 dry exploration wells drilled offshore Western Australia, onshore UK and offshore Mauritania.

Health, Safety, Environment & Community

One of the few parts of the Company's activities where zero is a good number. Maybe the only part. Zero Lost Time Incidents (LTI) in 2006 in terms of worldwide operations. Excellent result. Even better when the technical diversity, geographic spread and cultural range of ROC's activities are considered. No significant environmental incidents. Excellent result for the same reasons. One LTI in the entire Company during 2006. A member of the support staff in Sydney injured her toe while attempting to move a package. Risk is everywhere.

No major community incidents. Very important statistic. Especially considering some of the pristine environments and sensitive communities within which ROC operates. ROC can't take all the credit. The communities have been a pleasure to deal with.

Complied with a very extensive set of regulatory requirements in different jurisdictions. A point not often highlighted. Very important. Especially in the increasingly regulated world in which ROC operates.

Testing of the discovery in the Beibu Gulf was a surprise. A pleasant one. Nevertheless, a necessarily rushed operation. Lot of instantaneous planning required immediately the drilling results became apparent. Tested the Company's ingenuity. Good outcome. Fit for purpose Health, Safety, Environment and Community (HSE&C) system was put in place in a very short time-frame. Previous experience testing the Cliff Head Oil Field, in a comparable environment, proved to be very useful.

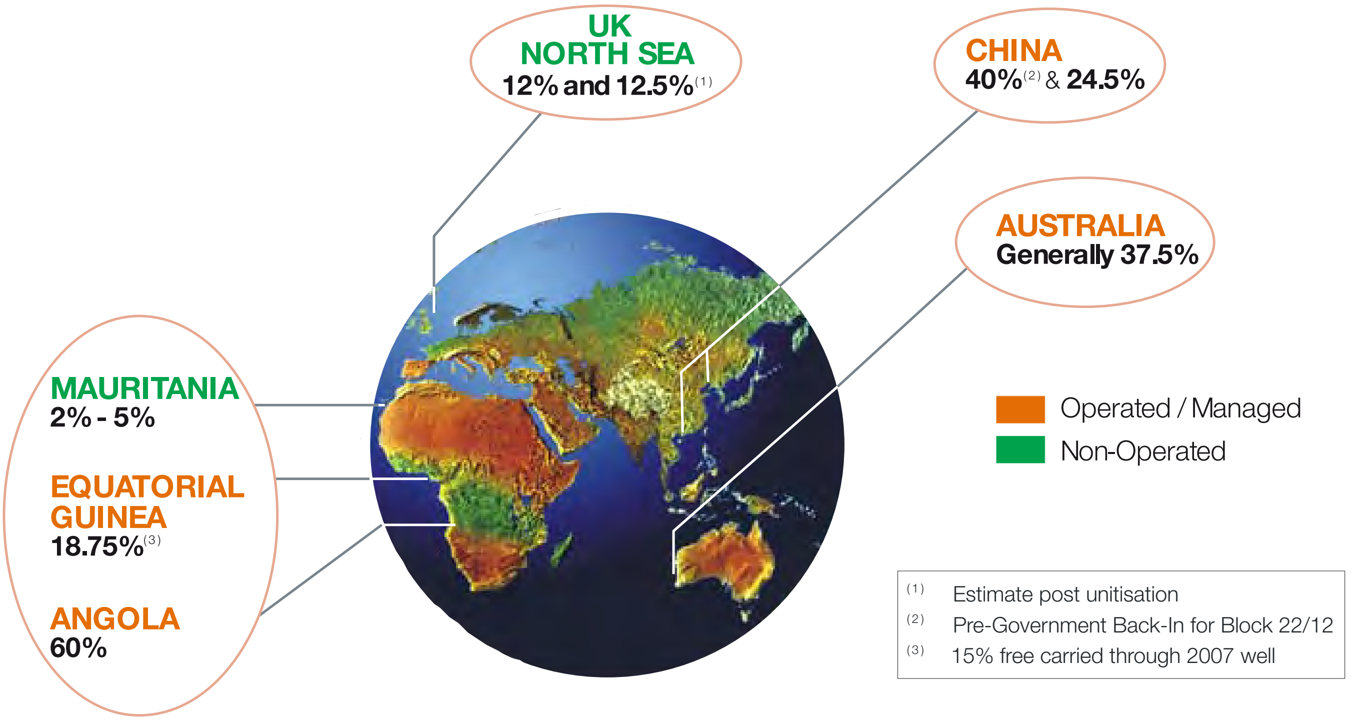
Cabinda seismic conducted in an exemplary fashion. Second of two extensive 3D and 2D seismic phases onshore Angola during 2005-06. More than 400 sq km of 3D seismic and 429 line kms of 2D seismic beyond the 3D area. More than 78,000 man-days on the ground over 18 months. Only one minor LTI and that was in mid 2005. Twelve landmines identified and rendered harmless. Twenty-three unexploded ordnance sites treated the same way. Numbers are considered to be reasonable in the circumstances. About what was expected. Perhaps less than public perception prior to survey.

The acquisition of the 24.5% operated interest in the Zhao Dong Block, offshore China brought with it a transition to operator of that asset. Major move. Zero LTIs since taking over. More than a million barrels produced under ROC's operatorship. No significant environmental incidents.

When all seems to be going well with HSE&E that is the time to worry. Worry most when nothing has gone wrong in the recent past. Nobody wakes up in the morning with the intention of making a serious operational or environmental blunder. If the previous day was incident free, human nature suggests that awareness of operational and environmental risk may be a tad lower than the day before. The most dangerous time is when an incident-free track record has been established. Then there is absolutely no room for complacency.

Right: ***Walking the walk.***
ROC held its first Board Meeting in Beijing in October 2006 and the Directors used the occasion to visit the offshore facilities at Zhao Dong.

Portfolio and Activities



ROC's 2006 DRILLING SUMMARY

Country	Well Name	Field / Prospect	ROC Acreage	Environment	Spud Date	Rig Release	Measured Depth (m)	Well Type	Result	Status	ROC Interest	Operator
CHINA	Wei 6-12S-1	Wei 6-12S	Beibu Block 22/12	Offshore	25-Apr-06	14-Jun-06	2,650	Exploration	Oil	P&A	40.00%	ROC
	Wei 6-12S-1Sa	Wei 6-12S	Beibu Block 22/12	Offshore	14-Jun-06	12-Jul-06	2,530	Appraisal	Oil	P&A	40.00%	ROC
	Wei 6-12S-1Sb	Wei 6-12S	Beibu Block 22/12	Offshore	13-Jul-06	06-Aug-06	2,950	Appraisal	Oil	P&A	40.00%	ROC
	ZD-D-32 (MZP)	D	Zhao Dong Block	Offshore	02-Aug-06	09-Sep-06	3,354	Development	Oil	C	24.50%	ROC
	ZD-C-29 (MZP)	C	Zhao Dong Block	Offshore	11-Aug-06	19-Sep-06	2,990	Development	Oil	C	24.50%	ROC
AUSTRALIA	Cliff Head 10	Cliff Head	WA-31-L	Offshore	27-Dec-05	18-May-06	2,150	Development	Oil	C	37.50%	ROC
	Cliff Head 8WI	Cliff Head	WA-31-L	Offshore	09-Jan-06	06-Feb-06	1,605	Development	Water Injector	C	37.50%	ROC
	Cliff Head 11WI	Cliff Head	WA-31-L	Offshore	18-Jan-06	03-Feb-06	2,290	Development	Water Injector	C	37.50%	ROC
	Cliff Head 12H	Cliff Head	WA-31-L	Offshore	07-Feb-06	05-May-06	2,698	Development	Oil	C	37.50%	ROC
	Cliff Head 9H	Cliff Head	WA-31-L	Offshore	20-Feb-06	26-May-06	2,684	Development	Oil	C	37.50%	ROC
	Cliff Head 13H	Cliff Head	WA-31-L	Offshore	27-Feb-06	21-Jul-06	2,739	Development	Oil	C	37.50%	ROC
	Cliff Head 7H	Cliff Head	WA-31-L	Offshore	03-Mar-06	06-Apr-06	2,548	Development	Oil	C	37.50%	ROC
	Jacala 1	Jacala	WA-351-P	Offshore	23-Mar-06	25-Apr-06	2,217	Exploration	Dry	P&A	20.00%(1)	BHP
	Moondah 1	Moondah	TP/15	Offshore	24-Jul-06	01-Aug-06	1,450	Exploration	Dry	P&A	20.00%	ROC
	Jingemia 8	Jingemia	L14	Onshore	13-Aug-06	08-Sep-06	2,565	Development	Oil	C	0.25%	Origin
MAURITANIA	Doré 1	Doré	PSC B, Block 4	Offshore	16-Jan-06	31-Jan-06	2,266	Exploration	Dry	P&A	3.693%	Woodside
	Colin 1	Colin	PSC A, Block 3	Offshore	21-Jul-06	05-Aug-06	2,322	Exploration	Dry	P&A	4.155%	Woodside
	Flamant 1	Lead 1	PSC Block 8	Offshore	05-Aug-06	03-Oct-06	3,299	Exploration	Dry	P&A	5.00%	Dana
	Aigrette 1	Central Lead	PSC Block 7	Offshore	07-Oct-06	08-Dec-06	5,152	Exploration	Oil, Sub-commercial	P&A	4.95%	Dana
	Chinguetti 18	Chinguetti	PSC B, Block 4	Offshore	29-Dec-06	Mar-07(2)	2,883	Development	Oil	C	3.25%	Woodside
UK	Willows 1	Willows	PEDL 030	Onshore	09-Apr-06	27-May-06	2,405	Exploration	Dry (Gas Shows)	P&A	100.00%	ROC
	30/3a-2 (BPE)	Blane East	Block 30/3a	Offshore	12-May-06	27-Jul-06	4,902	Development	Oil	C	12.50%	Talisman
	30/3a-4 (BPW)	Blane West	Block 30/3a	Offshore	27-Jul-06	15-Oct-06	4,749	Development	Oil	C	12.50%	Talisman
	16/13a-G	Enoch	Block 16/13a	Offshore	24-Aug-06	02-Nov-06	4,000	Development	Oil	C	12.00%	Talisman

C = Completed P&A = Plugged and Abandoned

(1) 50% Contributing Interest

(2) As at 28 February, Rig Release was anticipated to be in March 2007

Interests as at 28 February 2007

Country	Block	'Field' / Discovery	ROC's Working Interest	Gross Area (sq km)	ROC's Net Area (sq km)	Agreement Type	Operator
AUSTRALIA	WA-286-P		37.5%	6,618.4	2,481.9	Exploration	Roc Oil (WA) Pty Limited
	WA-31-L	Cliff Head	37.5%	72.3	27.1	Production Licence	Roc Oil (WA) Pty Limited
	WA-12-PL (Offshore-Commonwealth)		37.5%			Pipeline Licence	Roc Oil (WA) Pty Limited
	TPL/18 (Offshore-State)		37.5%			Pipeline Licence	Roc Oil (WA) Pty Limited
	PL70 (Onshore-State)		37.5%			Pipeline Licence	Roc Oil (WA) Pty Limited
	TP/15		20.0%	647.2	129.4	Exploration	Roc Oil (WA) Pty Limited
	WA-325-P		37.5%	6,014.9	2,255.6	Exploration	Roc Oil (WA) Pty Limited
	WA-327-P		37.5%	6,472.3	2,427.1	Exploration	Roc Oil (WA) Pty Limited
	WA-226-P (1)		7.5%	1,985.3	148.9	Exploration	Origin Energy Developments Pty Ltd
	WA-351-P		20.00%	3,773.4	754.7	Exploration	BHP Billiton Petroleum Pty Limited
	EP-413		0.25%	507.0	1.3	Exploration	Origin Energy Developments Pty Ltd
	L14	Jingemia	0.25%	39.7	0.1	Production Licence	Origin Energy Developments Pty Ltd
	Sub-Total Australia			26,130.5	8,226.1		
EQUATORIAL GUINEA	H/15 & H/16 (2)		18.75%	991.0	185.8	PSC	Roc Oil (Equatorial Guinea) Company (Technical Manager)
MAURITANIA	Area A, Block 3 & Shallow Blocks 4 & 5	Banda	4.155%	6,970.0	289.6	PSC	Woodside Mauritania Pty Ltd
	Area B, Deepwater Blocks 4 & 5 (3)	Tiof, Tiof West, Tevét	3.693%	8,028.0	296.5	PSC	Woodside Mauritania Pty Ltd
	Chinguetti EEA, Area B	Chinguetti	3.250%	included above		PSC	Woodside Mauritania Pty Ltd
	Area C, Block 2		3.2%	4,979.0	159.3	PSC	Woodside Mauritania Pty Ltd
	Area C, Block 6		5.0%	3,853.6	192.7	PSC	Woodside Mauritania Pty Ltd
	Block 1		2.0%	3,936.0	78.7	PSC	Dana Petroleum (E&P) Limited
	Block 7	Pelican	4.95%	10,091.0	499.5	PSC	Dana Petroleum (E&P) Limited
	Block 8 (4)		5.0%	11,812.5	590.6	PSC	Dana Petroleum (E&P) Limited
	Sub-Total Mauritania			49,670.1	2,106.9		
ANGOLA	Onshore Cabinda South Block (5)		60.0%	1,073.0	643.8	PSA	Roc Oil (Cabinda) Company
	Sub-Total West Africa			51,734.1	2,936.5		
CHINA	Beibu Gulf, Block 22/12	12-8, 6-12, 6-12 South	40.0%	364.0	145.6	PC	Roc Oil (China) Company
	Zhao Dong Block, Bohai Bay	C, D	24.5%	27.3	6.7	PC	Roc Oil (Bohai) Company
		C4	11.575%	included above		PC (Unitised)	Roc Oil (Bohai) Company
		Exploration	50.0%	included above		PC	Roc Oil (Bohai) Company
	Sub-Total China			391.3	152.3		
ONSHORE UK	PEDL 002 (6)		5.0%	240.3	12.0	Licence	Star Energy (East Midlands) Ltd
	PEDL 005 (Remainder) (7)	Keddington	100.0%	23.5	23.5	Licence	Roc Oil (GB) Limited
	PEDL 030	Cloughton	100.0%	213.7	213.7	Licence	Roc Oil (GB) Limited
	Sub-Total Onshore UK			477.5	249.2		
UK NORTH SEA	P111, Block 30/3a (Upper)		15.24%	46.6	7.1	Licence	Talisman Expro Limited
	Blane Field, P111, Block 30/3a (Upper)	Blane	12.50%	included above		Licence (Unitised)	Talisman Expro Limited
	P219, Block16/13a (8)	J1	15.0%	65.2	9.8	Licence	Talisman Expro Limited
	Enoch Field, P219, Block 16/13a	Enoch	12.0%	included above		Licence (Unitised)	Talisman Expro Limited
	P755, Block 30/22b		12.0%	115.0	13.8	Licence	Maersk Oil North Sea UK Limited
	Sub-Total Offshore UK			226.8	30.7		
	Sub-Total UK			704.3	279.9		
TOTAL ROC ASSETS				78,960.3	11,594.8		

Note:

ROC has a 0.1057% Net Profit Interest in P240 (Block 16/22a and Block 16/22b), UK North Sea.

ROC has a 1% Royalty over gross production in P1036, P1037, P1038 and P1126 (Blocks 30/24d, 30/24c, 30/24a and 30/29b), UK North Sea.

Key:

EEA - Exclusive Exploitation Area
PC - Petroleum Contract
PSA - Production Sharing Agreement
PSC - Production Sharing Contract

(1) ROC withdrawn effective 6 March 2007.
(2) Free carried for 15% interest through the next well.
(3) Area to be finalised pending Government approval of 25% area to be relinquished from 21 July 2006.
(4) Dana assignment of 3% interest to ROC completed 15 January 2007.
(5) 75% contributing interest for exploration.
(6) Free carried interest.
(7) Sale in progress, completion expected March 2007.
(8) Exploration acreage to be partially relinquished in 2007 (area to be confirmed).

Angola

Unique situation. Absolutely. Main problem with the petroleum system is that the only way it can be accurately described is by resorting to clichés such as 'world class' etc. While such an adjective is both true and accurate, the use of an over-worked phrase tends to detract from the main message. Bottom line: few small independents get a chance to unlock the petroleum potential of an area like onshore Cabinda after more than 30 years of inactivity. That is why ROC considers itself privileged to be there.

Two large 2D and 3D seismic surveys in 2005 and 2006 have provided an excellent technical foundation. More seismic is planned for 2007.

Both the 2005 and the 2006 surveys represent remarkable achievements. Both were completed within schedule. After more than 78,000 man-days on the ground in Cabinda during 2005 and 2006, there was only one minor lost time operational incident and that was in mid-2005 at the start of the first survey. However, nobody is complacent. Operational challenges are always plentiful; always present. That is not unusual in an area devoid of exploration activity for more than 30 years.

ROC's approach has been to integrate into the local community and discuss each phase of the project as it unfolds. The support and understanding of the local communities have been a key feature of the work to date.

During 2007, a multi-well exploration drilling programme will test the petroleum potential of an area where the last well was drilled in 1971. Success is by no means certain. If there was an unlimited ability to drill an unlimited number of wells, ROC and its co-venturers would almost certainly make a significant discovery. In the real world of oil exploration, life is not like that. There is no such unlimited ability. There is no guarantee of success. In fact, the only certainty is that if enough wells are drilled, some will be dry. However, a commercial discovery in Angola could further transform the Company. That is one of the benefits of exploration success – value creation.

Other benefits from exploration success would be significant and visible economic gain both for the local communities in the vicinity of ROC's drilling activity and also for Cabinda as a whole. These are worthy prizes that fully justify the effort and the cost – and risk.

"ROC has been steadily putting its Angolan strategy in place since 1998 when it first tried to acquire and accumulate equity in the Cabinda South Block. It's been quite a journey. However, all we've really done is travelled to the starting line – now comes the real business of looking for and hopefully finding, significant amounts of oil onshore Cabinda."

Stock Exchange Release 27.10.2004

Right: ***Getting the drilling rig ready.*** *The 'Simmons' rig being upgraded in Dubai prior to planned shipment to Angola in April 2007 for drilling in Cabinda during 2Q 2007.*

Australia

Good petroleum system at Cliff Head. Not world class, but good. Two million barrels of oil produced in the first eight months of production from an offshore region with no previous oil discovery, let alone any prior production history, evidences the quality of the rocks.

Intermittent, but manageable, mechanical and downstream problems. That is OK. That is the nature of the field. Producing oil from Cliff Head is all about management and maintenance. So far, so manageable.

The Cliff Head development represents a number of '*firsts*' for the offshore oil industry in Australia. Most of them good. Fastest full scale oilfield development: 14 months from Final Investment Decision to first oil. Only example of a Joint Venture, composed largely of small independent Australian oil companies, one of which was the operator, discovering and developing an oil field offshore Australia. When the field was discovered in 2001, the five Australian publicly-listed participants had a combined market capitalisation of approximately $250 million. By the time first oil flowed in 2006, the three remaining publicly-listed participants had a collective market capitalisation of about $2.4 billion.

Subsequent exploration drilling results have not been good. Since the first modern well in the offshore part of the basin found the Cliff Head Oil Field, eight exploration wells have been drilled in this part of the basin. All dry. In 2Q 2007 three more exploration wells will be drilled. If these wells fail to yield commercial encouragement, ROC's interest in the offshore Perth Basin will very quickly consolidate on the Cliff Head Oil Field and the immediately surrounding area and its exploration dollar will be diverted elsewhere.

Prior to discovering the Cliff Head Oil Field, there was an external view that dealing with the local crayfishing community would be challenging. Prior to developing the field, there was a similar view that dealing with a Western Australian construction workforce would be difficult. Both views proved to be wrong. The relationship between ROC and the local crayfishing industry, together with other people throughout the broader community, started off very well and became excellent. The year-long construction phase of the development experienced only a few minor labour problems thanks to the professionalism of all concerned. In this sense, ROC found itself at the interface between perception and reality in terms of the local communities and labour relations. Not for the first time, the Company discovered that the reality was much better than the perception.

"This full cycle project, running from discovery to production, represents a number of 'firsts' for the Australian oil industry. However, ROC's current focus is not on statistical niceties as much as completing the other wells and bringing them on stream. In this sense, first oil from Cliff Head is more like another day at the office rather than an end in itself."

Stock Exchange Release 1.5.2006

Right: ***A new field comes on stream.*** *Alan Carpenter MLA, The Premier of Western Australia (left) officially opened the Cliff Head Oil Field's Arrowsmith Stabilisation Plant on 18 May 2006, accompanied by Mr Bruce Clement, ROC's Chief Operating Officer.*

China

A different world. A world that became increasingly important to ROC during 2006. Major reserve and production acquisition in the Bohai Bay. Significant oil discovery 2,500km to the southwest in the Beibu Gulf. Two events which consolidated China's position within ROC's portfolio of core regions.

This portfolio has its origins in 1998 when ROC had its first contact with Chinese energy companies as it exported oil from Mongolia into China by railcar. ROC is now the third largest foreign operator of oil production offshore China. It is also one of the relatively few foreign operators to have enjoyed exploration success in China. ROC considers it a privilege to be working with its co-venturers to unlock the full potential of such high quality petroleum systems as the Bohai Bay and the Beibu Gulf.

Beibu Gulf: Two of the three exploration wells drilled in Block 22/12 in the Beibu Gulf since ROC's 2002 farmin have discovered oil. Neither discovery is huge. Both are currently being considered for commercial development. There are a number of other undrilled prospects in the immediate vicinity and undeveloped accumulations in the southern part of the Block. This encourages ROC to retain an exploration focus on this part of its Chinese portfolio as it moves its recent discoveries towards development.

Bohai Bay: During 2006, ROC's Chinese production and development focus was firmly on the Zhao Dong Block in the Bohai Bay, approximately 200 km southeast of Beijing. The US$260 million acquisition of a 24.5% operated interest in this block, via the purchase of Apache China, was completed in August 2006. The purchase changed ROC. It is a potential legacy asset. Up to 27 horizons with oil. Sixteen are known to be productive. Evidence of a very active petroleum system. The last dry well in the Block was drilled several years ago. However, developing Zhao Dong's full potential is not a 'stroll in a shopping mall'. There are challenges. Numerous challenges. All are manageable. But only with the support and goodwill of ROC's Zhao Dong co-venturers and the relevant government authorities in China. That support has been manifested in a number of ways. Most recently in early 2007, when several formal approvals were obtained relating to development projects. Consequently, ROC and its co-venturers are able to map out drilling and facility programmes stretching out over the next five years at a total Joint Venture cost in excess of US$500 million. This is a timeframe and project scope well beyond that normally contemplated by independent Australian oil companies.

Leaving aside all the usual platitudes about the transformational impact of this purchase, perhaps the key point for shareholders and potential investors to note is that this deal is a direct consequence of ROC's strategic emphasis on its operating capacity both in Australia and overseas, together with a strong and extensive network of international contacts.

Stock Exchange Release 9.8.2006
Commenting on the purchase of Apache China.

Opposite: ***The office and the operation.***

Top: ROC is one of the few, possibly the only, upstream western oil company in China to grant share options to all of its local employees, some of whom are pictured listening to details of the option plan.

Bottom: ROC's Directors inspecting the Zhao Dong facility, offshore China, October 2006.


ZHAO DONG
PRODUCTION WELL

Mauritania and Equatorial Guinea

Mauritania: Disappointing. Not too material to ROC. But still disappointing. Rooster to feather duster in the eyes of many market watchers. All in a short five years. An expensive five years. All the more expensive because of an unanticipated US$100 million production bonus.

The reserve rationale for the development of the Chinguetti Field was rapidly eroded as field production fell below expectations after first oil flowed in February 2006. The targeted initial production rate of 75,000 BOPD was achieved. Only briefly. Then, it was a slide down a slippery production slope to around 20,000 BOPD at year-end. The proved and probable reserves followed the same pattern. As announced by ROC, the field's pre-production initial 2P reserve estimate of 123 MMBO was wobbling around 60 to 90 by August 2006, six months after first oil flowed. By year-end, the estimate had crumbled further to about 52 MMBO. Mainly because of the poorer than expected sand connectivity. Always publicly recognised by ROC as a risk. This risk became a reality at Chinguetti. It casts a shadow over other undeveloped fields in the area. The shadow is deepened by a recent run of poor exploration results. A sequence of events like this emphasises the risk, not only of deep water exploration, but also of deep water production.

On occasions, this sort of sequence of events can also mark the low point of the upstream pendulum that precedes a degree of upswing driven by more encouraging results. Time will tell.

ROC's deliberate strategy of portfolio diversity mitigated its exposure to the risk of Mauritania. An area which a few years ago was a high profile part of the Company's activities is now seen for what it has become: less than 5% of the Company's reserves and about 5% of its production. Of course, those numbers would have been larger if the Chinguetti Field had performed better. Nevertheless, the portfolio relevance of Mauritania would still have been relatively low as ROC's conveyor belt strategy moved forward.

Equatorial Guinea: No overt activity. In reality: a lot of activity. All focused on securing a drill rig to test the deep water Aleta Prospect in Block H. As soon as possible. For most of the latter part of 2006, ROC was planning in earnest for a 2007 well to test the Aleta Prospect but, as at year end, negotiations to finalise a rig contract were yet to be concluded

Meanwhile, the Aleta Prospect remains as tantalizingly attractive as ever. Nothing has changed with regard to the prospect's geology. ROC's intention also remains unchanged: it still intends to drill the Aleta-1 well as soon as possible.

United Kingdom

North Sea: Two Cinderella fields. Both being developed. ROC's non-operated interests in the Blane Oil Field and the Enoch Oil and Gas Field are relatively modest, 12.5% and 12% respectively. Therefore, the development of these fields does not have quite the same profile within the context of the Australian investment community as, say, the Cliff Head Oil Field.

Nevertheless, ROC's $60.5 million expenditure on the development of these UK fields during 2006 represents almost half of the Company's total development expenditure for that year.

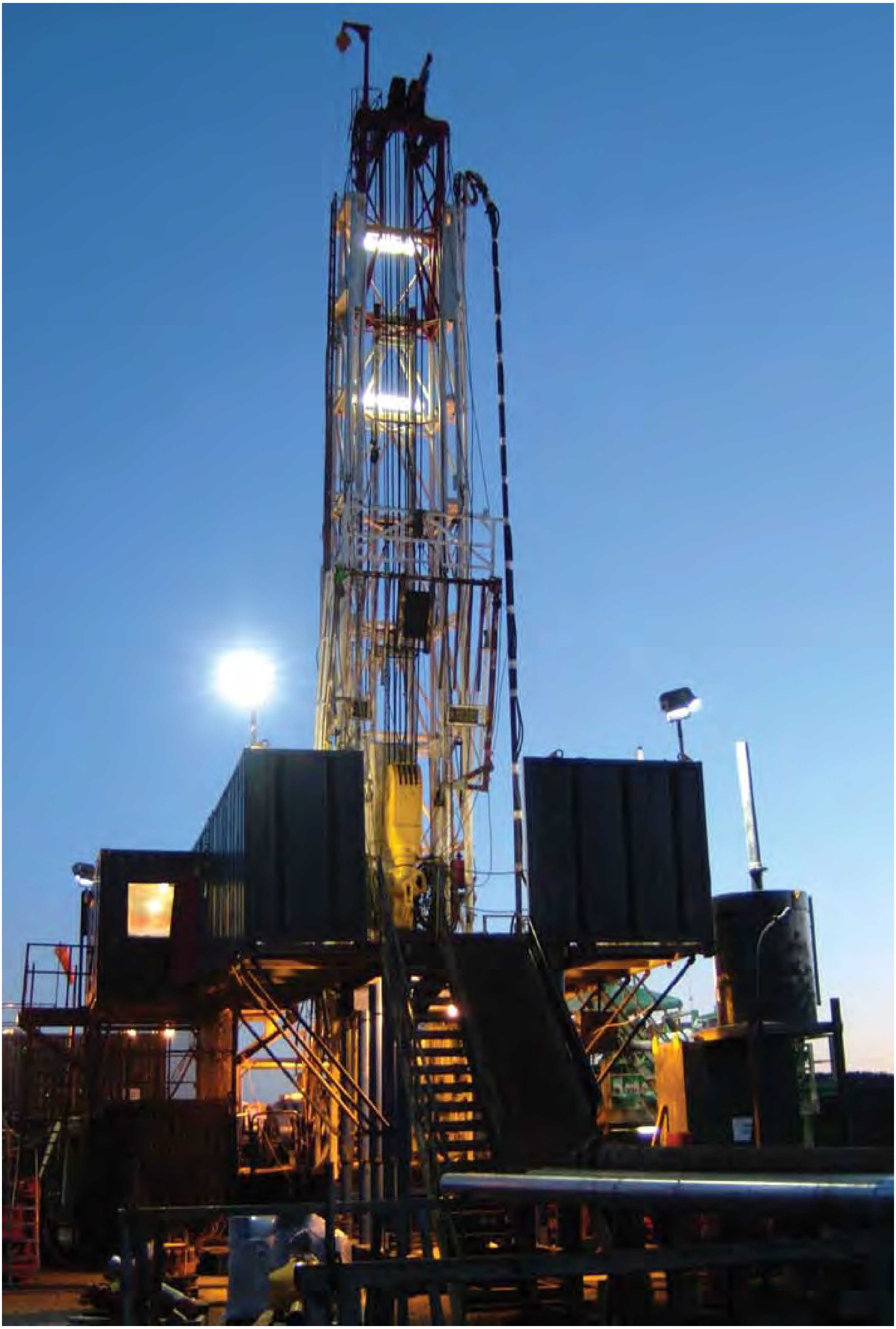
Both fields are expected to start production in 2Q 2007, subject to the usual industry caveats regarding timely completion of the development programme. When that happens, the impact on ROC will be noticeable. Gross initial production from the two designated oil producing wells in the Blane Oil Field is expected to be about 16,000 BOPD. The single well in the Enoch Oil and Gas Field should produce about 12,000 BOPD and 20 MMSCFD initially. Collectively, these initial production rates are expected to represent approximately one quarter of ROC's forecast total production as of 3Q 2007.

Onshore: The drilling of the Willows-1 exploration well was completed in early 2006. Dry. An agreement to sell ROC's interest in the small onshore Keddington Oil Field was finalised in early 2007. These two events effectively drew a line under ROC's operations onshore UK. This seven year corporate adventure provided excellent results with regard to field developments, production, cash flow and asset sales. Exploration results were disappointing.

ROC closed its main UK office during 2006. Never an easy task. The high standard of professionalism of all involved ensured that the closure process was conducted in an exemplary manner. Some of the UK staff continue to work with the Company on other projects in other parts of the world.

> When you are developing offshore oil fields the development risk never goes away until the oil flows – and then you move straight into the world of production risk!
>
> **Stock Exchange Release 27.9.2005**
> Commenting on Cliff Head and Chinguetti developments.

*Right: **A long way to Angola.** The ROC-owned 'Explorer' rig drilling Willows-1, onshore UK, was shipped to Angola in early 2007. It will start drilling onshore Cabinda in 2Q 2007.*



New Ventures

ROC's portfolio strategy remains unchanged. The Company maintains its '*conveyor belt*' approach to new business. The success achieved in 2006 has not reduced the need to place new projects on the conveyor belt. Arguably, the need for fresh horizons has increased, at least in terms of exploration. This is because of two key reasons: other parts of the portfolio have matured and moved into the developed and producing category while new production and reserves assets have also been added.

During the last few years good quality acquisitions have been hard to identify and even harder to acquire. All the more so when one of the essential requirements is cost efficiency. For ROC, cost efficient acquisition is very important. That's why the Company tries to avoid going to industry auctions.

ROC's big acquisition during 2006 was the US$260 million purchase of Apache China, whose sole asset was a 24.5% operated interest in the Zhao Dong Block, offshore China. Although the purchase process could have become a public industry auction, that didn't happen. There were a number of influential factors that led to the transaction being consummated on a one-on-one basis. ROC's ability to move quickly and cleanly was important. Apache's preparedness to deal in a like manner was equally vital. The very speedy provision of financial support by ROC's principal bankers, the Commonwealth Bank of Australia, was crucial. The end result was a satisfactory transaction for all concerned. There was minimum wastage of time and effort: two of the most precious commodities in this business.

In ROC's opinion, it paid a reasonable price for the proved and probable reserves in the Zhao Dong Block at a time of high oil prices. Subsequent to agreeing to the purchase, approximately 40% of ROC's share of the Block's forecast proved and probable production for the subsequent five years was hedged at an average Brent oil price of US$ 72.33/BBL. At the time, that seemed a prudent strategy. It proved to be better than prudent. With hindsight, it would have been smarter to have hedged more. The main benefit of the acquisition was to provide access to the upside of the area. During the six months since the transaction was finalised, there have been plenty of reasons to believe that the full potential of the Block is real and will be realised.

Other New Ventures: Large tracts of exploration acreage over areas which are genuinely prospective are hard to find. The current industry and oil price climate have ensured that good opportunities are rare. In some parts of the world, increased government expectations and an apparent decreasing awareness of the risk and long investment lead times involved with exploration projects, have accentuated the difficulties of acquiring such acreage. Big signature bonuses, paid by companies anxious to acquire acreage, compound the challenge. ROC keeps looking. It keeps applying its '*sensibly contrary*' strategy. It remains patient.

The sale is a good example of ROC's sensibly contrary strategy and the Company's approach of actively managing its portfolio of assets. It takes a certain amount of corporate confidence – and a very compelling offer – to sell virtually all of a company's, albeit modest, production and one third of its equally modest reserves. If we thought we couldn't replicate a Saltfleetby-type experience in the future we wouldn't be selling it now.

Stock Exchange Release 21.12.04
Commenting on the sale of the Saltfleetby Gas Field, onshore UK.

What ROC said

When ROC originally farmed into this Block six months ago, it had a positive view of upstream oil and gas opportunities in China. That view has been enhanced by subsequent events. In particular, we appreciate the relationship which has been developed with the relevant government authorities, both in Beijing and in Zhanjiang, which is ROC's operations base in Southern China.

Stock Exchange Release 27.8.2002
Commenting on the increase in ROC's equity in Block 22/12 in the Beibu Gulf, offshore China.

...the rocks in Angola are every bit as prospective now as they were in January 2006 when they were subject to a lot more investor focus in the context of ROC's A$76 million placement to UK institutions. All that has happened in the meantime is that success on two separate fronts offshore China has moved the market spotlight from exploration in Angola to production and potential development in China. That's just a perception shift reflecting the most recent events. There's just as much reason to be excited about what ROC is doing onshore Angola now as there was six months ago.

Stock Exchange Release 23.8.2006

The Joint Venture is maintaining its methodical approach to appraising the commercial potential of the Wei South discovery and on the basis of the recent production test results it would seem to be a case of - so far so good.

Stock Exchange Release 13.6.2006

Perhaps, the main thing for shareholders to take from ROC's activities is that the Company's strategy is working well. Diversification of its development and production portfolio, a consistent exploration effort and a steadfast focus on international operations are about to catapult ROC into a different league.

Stock Exchange Release 31.7.2006

The results of the Appraisal Report are consistent with previous public statements by ROC. They pave the way for a move towards a cornerstone commercial development that could trigger a number of add-on development opportunities. Until now the difficulty with our activities in the Beibu Gulf has been getting the first cab to move off the rank and while we are not quite at that point just yet, we have certainly taken a big step in that direction. If the optimum schedule is maintained, the development of the Beibu fields will dovetail very neatly into ROC's production and development activities in the Bohai Bay.

Stock Exchange Release 30.1.2006
Commenting on the Wei 6-12 South Appraisal Report.

"The start-up of oil production from the Chinguetti Field and the planned start-up of oil production from the Cliff Head Field... represent a change in the nature of project risk as development risk gives way to production risk. ROC's attitude to these field start-up moments is that while the importance of first production should be acknowledged, it is not the time to celebrate because that is best left until after production has been established and the productive capacity of each new field thoroughly understood."

Stock Exchange Release 27.2.2006

Statement of Corporate Governance Practices

The Board of the Company is dedicated to achieving the highest standards of ethical behaviour and corporate governance. To meet this aim, the Company has adopted corporate governance policies and practices based upon the principles set out in ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" ("ASX Recommendations").

This statement sets out the main corporate governance practices that the Company had in place during the reporting period.

Laying Solid Foundations for Management and Oversight

The Board is responsible for the strategic direction of the Company, the identification and monitoring of corporate goals and policies, overseeing the Company's management and regularly reviewing performance. The Directors' focus is to act in the best interests of shareholders and other stakeholders.

The Board operates in accordance with the Company's Constitution and Board Charter which describe the Board's composition, functions and responsibilities and identify authorities reserved to the Board and those which are delegated to management. A copy of the Company's Board Charter can be obtained from the Company's website at www.rocoil.com.au.

Structuring the Board to Add Value

Board Composition

As at the date of this report, the Board is comprised of seven directors being one Executive Director and six Non-Executive Directors including the Chairman:

Mr AJ Love
Mr WG Jephcott
Dr RJP Doran
Mr RJ Burgess
Mr R Dobinson
Mr SJ Jansma Jr
Mr AC Jolliffe.

Details of the background, experience and professional skills of each Director are set out in the Directors' Report. Under the Company's Constitution, there must be a minimum of three Directors and a maximum of 12. In addition, a Director (other than the Managing Director) may not retain office for more than three years without submitting to re-election. In effect, one third of Directors in office (with the exclusion of the Chief Executive Officer) retire by rotation at the Annual General Meeting. Those retiring Directors must seek re-election by the shareholders.

The Board usually meets on a monthly basis and, where appropriate, hears presentations from senior management who may be questioned directly by Board members on operational and commercial issues. The Non-Executive Directors also meet on a regular basis independently of the Chief Executive Officer and management.

The shareholders may, by resolution in general meeting, remove or replace a Director.

Independence of Directors

All Non-Executive Directors of the Company, including the Chairman, are considered independent. The independence of Directors is assessed pursuant to the Company's Policy on Independence of Directors which is based upon the ASX Recommendations. In relation to Director independence, materiality is determined on both a qualitative and quantitative basis.

Based on the assessment of independence of Directors conducted by the Board, six Directors are independent and one is not. Therefore, the Company satisfies the ASX Recommendation that the majority of Directors be independent.

Independent Advice

Directors may, with the reasonable approval of the Chairman, obtain independent professional advice at the Company's cost, in relation to their position while acting as a Director of the Company.

Remuneration and Nomination Committee

The Board has created the Remuneration and Nomination Committee. The Remuneration and Nomination Committee comprises Mr Jephcott (Chairman) and Mr Dobinson. It is a policy of the Board that members of the Remuneration and Nomination Committee be Non-Executive Directors. The Committee operates within a Charter which can be found in the Corporate Governance section of the Company's website at www.rocoil.com.au.

The Committee is responsible for assisting in identifying potential Directors and assisting Directors understand their duties and responsibilities. The Committee also assists the Board in evaluating the performance of executives, Directors and members of Board Committees. The Committee is responsible for reviewing and making recommendations to the Board for the remuneration of the Chief Executive Officer and other key executives.

Promoting Ethical and Responsible Decision Making

The Company is committed to the principles of efficiency, honesty and fairness in undertaking its activities and seeks to maintain the highest standard of integrity.

The Company has adopted a Directors' Code of Conduct to guide Directors and officers in relation to the standards that are expected of them. The Company has also adopted a policy on Anti-Corruption and Receipt of Gifts which establishes the Company's obligations to comply with relevant laws and to conduct its business ethically.

In addition, the Board has adopted a Share Dealing Code and Share Trading Policy that regulates dealing by officers and employees in shares and other securities issued by the Company. The Policy seeks to ensure that officers and employees are aware of the legal restrictions on trading in Company shares while in possession of unpublished price-sensitive information and establishes a procedure for trading by officers and employees which is consistent with legal requirements in Australia and the United Kingdom and ensures integrity and market confidence.

Copies of both the Directors' Code of Conduct (including the Policy on Anti-Corruption and Receipt of Gifts) and the Share Trading Policy can be found in the Corporate Governance section of the Company website at www.rocoil.com.au.

Conflicts of Interest

Directors are required to keep the Board appraised of any potential conflicts of interest they may have with the interests of the Company.

Safeguarding Integrity in Financial Reporting

The Board has created the Audit Committee to oversee the Company's financial reporting processes and ensure it meets its reporting obligations. The Chairman of this Committee, Mr Jephcott, is an independent Non-Executive Director who is not Chairman of the Board. The Committee operates within a Charter which can be found in the Corporate Governance section of the Company website at www.rocoil.com.au.

The Audit Committee comprises Mr Jephcott as Chairman, Mr Love and Mr Jolliffe. It is a policy of the Board that members of the Audit Committee be Non-Executive Directors and that the majority be independent. At least one member of the Audit Committee must have a background in financial reporting, accounting or auditing.

The Audit Committee reviews the Company's financial information to ensure its accuracy and timeliness. The Committee's functions also include reviewing the Company's accounting policies, overseeing the effectiveness and independence of the external audit and considering risk management and compliance issues.

The Chief Executive Officer and Chief Operating Officer have stated in writing to the Board that for the financial year ended 31 December 2006, the financial reports present a materially true and fair view of the Company's financial condition and the operational results are in accordance with relevant accounting standards.

Timely and Balanced Disclosure

The Company is committed to open, prompt and regular communication with the market. Under the ASX Listing Rules, the Company has an obligation to inform the market of information that may have a material effect on the price or value of the Company's securities. To meet these obligations, the Board has adopted a Continuous Disclosure Policy which contains policies and procedures designed to ensure accountability at the senior management level for compliance with the disclosure obligations.

The Company has established a Continuous Disclosure Committee which comprises the Chief Executive Officer, the Chief Operating Officer and the Company Secretary.

The Company's Continuous Disclosure Policy can be found in the Corporate Governance section of the Company website at www.rocoil.com.au.

Respecting the Rights of Shareholders

The Board of Directors has a primary responsibility to the shareholders. The maintenance of active channels of communication with shareholders forms an integral part of this responsibility. The Company is committed to effective communication with shareholders and other stakeholders. The Company has therefore established a communication strategy.

The Board aims to ensure that shareholders are informed of all major developments affecting the Company in a timely fashion through announcements to the ASX and AIM. These announcements can be found in the ASX Releases section of the Company's website at www.rocoil.com.au. The Company's website also contains a range of other company information including presentations, reports and the Company's policies, codes and charters.

In addition, information is communicated via the distribution of the Annual Report, the lodging of a half yearly report with ASIC, ASX and AIM and the distribution of notices to all shareholders informing them of shareholder meetings.

The Board encourages shareholder participation at general meetings and will provide for shareholder questions in all meetings. The Company auditors will attend the Annual General Meeting. Shareholders are invited to submit written questions to the auditors (via the Company) concerning the Auditor's Report or the conduct of the Company's audit no later than five business days before the Annual General Meeting. A list of questions will be made available to members at the Annual General Meeting. Shareholders can also ask questions of the auditor at the Annual General Meeting.

Recognising and Managing Risk

The Company understands the need for an effective system of risk oversight, management and internal control. The Board is responsible for the overall control framework of the Company. To this end, the Board has established a Finance and Risk Management Committee and a risk management strategy. This Committee comprises Mr Love, Mr Jephcott, Mr Burgess, Mr Jansma Jr and Mr Jolliffe. Copies of the Charter and Terms of Reference can be found at the Company's website www.rocoil.com.au.

The Chief Executive Officer and Chief Operating Officer have stated in writing to the Board that for the financial year ending 31 December 2006, the statements made by them regarding the integrity of the financial statements are founded on a sound system of risk management, internal compliance and control which, in all material respects, implements the policies adopted by the Board and that the risk management and internal compliance and control, to the extent that they relate to financial reporting, are operating effectively and efficiently, in all material respects.

Encouraging Enhanced Performance

The Remuneration and Nomination Committee is responsible for ensuring performance evaluation of the Board and key executives and for the implementation of induction procedures for new Board members. The Board has established a Performance Evaluation Process.

A performance evaluation for the Board and its members was undertaken during the last reporting period.

The Performance Evaluation Policy and the Charter of the Remuneration and Nomination Committee can be found in the Corporate Governance section of the Company's website at www.rocoil.com.au.

Fair and Responsible Remuneration

The Company is aware that fair remuneration is essential for attracting and retaining talented and motivated Directors and employees who will enhance the Company's performance. The Company is also aware that remuneration should be responsible and that there should be a clear relationship between performance and remuneration.

Executive remuneration is fixed by the Board and may comprise salary, bonuses and share participation.

Non-executive remuneration comprises fixed remuneration, including superannuation, which is set at a level that reflects the marketplace.

The total fees payable to Directors (including equity-based payments) must not be increased without the prior approval of members at a general meeting.

Further information on remuneration can be found in the Remuneration Report included as part of the Directors' Report and in the Remuneration and Nomination Committee Charter on the Company website at www.rocoil.com.au.

Recognising the Legitimate Interests of Stakeholders

The Company recognises that it has a responsibility to shareholders, employees, clients and the community as a whole and is committed to corporate practices that reflect these responsibilities. The Company requires that the Directors and staff of the Company act in a manner that reflects the highest standards of behaviour and professionalism. It emphasises the need for honesty and integrity in all areas and in particular, in relation to legal compliance, record keeping, conflicts of interest and confidentiality.

The Company has adopted a Directors' Code of Conduct to guide Directors and officers in relation to the standards expected of them by the Company. The Directors' Code of Conduct can be found in the Corporate Governance section of the Company website at www.rocoil.com.au.

The Company has also adopted a Code of Conduct and Business Ethics which reflects its commitment to business and corporate ethics and recognition of the interests of shareholders. The Code of Conduct includes the Company's whistleblower policies and procedures. Under that policy, any concerns may be reported to the Chairman of the Audit Committee of the Board, the Company Secretary or the Company's auditors. This Code can also be found at the Company's website www.rocoil.com.au.

DIRECTORS' REPORT
and the
ANNUAL FINANCIAL REPORT

Contents

Directors' Report

The Directors of Roc Oil Company Limited ('Company' or 'ROC'), a listed Australian public company, have pleasure in submitting the Directors' Report for the financial year ended 31 December 2006.

Directors

The names and particulars of the Directors and Company Secretaries of the Company during or since the end of the financial year are:

Mr Andrew J Love *BCom, FCPA, MAICD*
(Non-Executive Director, Chairman) - Appointed 5 February 1997

Mr Love is Chairman of the Board of ROC, a Fellow of The Institute of Chartered Accountants in Australia and a Senior Partner in the firm of Ferrier Hodgson, Chartered Accountants. In the prior three years, Mr Love was a director of Principal Real Estate Investors (Aust) Limited. Appointed in July 2005, Mr Love is a non-executive director of Primelife Corporation Limited and since April 2006 has been Deputy Chairman of Riversdale Mining Limited.

Mr William G Jephcott *BCom, FCPA, FAICD*
(Non-Executive Director, Deputy Chairman) - Appointed 5 February 1997

Mr Jephcott is an investment banker who specialises in merger and acquisition advice. He also has experience in the financing and structuring of major resource projects, including those in the oil and gas industry. Mr Jephcott is a Special Advisor with Gresham Partners Limited, non-executive Chairman of Engin Limited and a director of NSW Rugby Union Limited. He was previously Vice Chairman, Investment Banking Group, Merrill Lynch International (Australia) Limited.

Dr R John P Doran *BSc, MSc, PhD, FAICD*
(Executive Director and Chief Executive Officer) - Appointed 14 October 1996

Dr Doran is Chief Executive Officer and the founder Director of ROC. He has more than 30 years' experience in international oil exploration and development characterised by direct involvement with several corporate expansions and/or commercial discoveries and developments in Western Europe, North and West Africa, the Middle East, India, China and Australia.

Mr Richard J Burgess *BSc*
(Non-Executive Director) - Appointed 27 May 1997

Mr Burgess is a geologist by training and was, until his retirement, President and Chief Executive Officer of CMS Nomeco Oil & Gas Co, a North American-based oil and gas exploration and production company. He has extensive exploration experience in North and South America, Australasia, East Asia and China. Mr Burgess is also a director of Gasco Energy, Inc and was previously a director of several other oil and gas companies in Australia and the United States.

Mr Ross Dobinson *BBus*
(Non-Executive Director) - Appointed 11 June 1997

Mr Dobinson has an accounting, corporate advisory and investment banking background. Since 1999, Mr Dobinson has been Managing Director of TSL Group Limited, a corporate advisory company specialising in establishing and advising biotechnology companies. Mr Dobinson is also a director of two companies listed on the Australian Securities Exchange, Starpharma Holdings Limited and Acrux Limited (Chairman) since 1997 and 1998, respectively. He is also a director of a number of unlisted companies.

Mr Sidney J Jansma, Jr *MBA*
(Non-Executive Director) - Appointed 17 March 1998

Mr Jansma began his career in the oil and gas industry in 1959 working for his father's private oil company. In 1978, Mr Jansma purchased the company from his father, and during the ensuing 19 years the company grew to become the third largest Antrim gas producer in Michigan. In 1997, Mr Jansma merged his company with Dominion Resources, Inc, where he remained as President and Chief Executive Officer of Dominion Midwest Energy, Inc, a wholly-owned subsidiary of Dominion Resources, Inc. After four years of serving in this capacity, Mr Jansma founded Wolverine Gas and Oil Corporation and explores for oil and gas in the United States. Mr Jansma has served as a member of the Board of Governors of the Independent Petroleum Association of America and Chairman of both its Tax and Environmental Committees. In addition, Mr Jansma currently serves on the board of the American Petroleum Institute and as Chairman of the Board of Calvin Theological Seminary in Grand Rapids, Michigan.

Mr Adam C Jolliffe
(Non-Executive Director) - Appointed 27 November 1998

Prior to joining Cargill Financial Markets plc ('Cargill') in 1981, Mr Jolliffe worked for Tenant Trading (Metals) Ltd, a subsidiary of Consolidated Gold Fields trading non-ferrous metals. At Cargill, Mr Jolliffe joined the non-ferrous metals department as Manager - Aluminium Trading, where he was responsible for Eastern and Western Europe, Asia and Africa. In 1986, Mr Jolliffe transferred to Cargill's rubber trading business as the manager of its European, African and Latin American operations. In 1990, he joined Cargill's Financial Trading Division and became the Manager of Western European Equity Trading. Mr Jolliffe resigned from Cargill in November 2003 and is now an independent financial consultant.

Ms Sheree Ford *BA, LLB, GradDip (Resources Law), MBA*
(Company Secretary)

Ms Ford is General Counsel and Company Secretary of ROC. Ms Ford joined the Company in November 2004 and holds Bachelors of Arts and Law, Graduate Diploma of Resources Law and Masters of Business Administration from the University of Melbourne. Prior to joining ROC, Ms Ford held positions of Corporate Counsel with Qantas Airways Limited and BHP Billiton Limited. During her 10 years with BHP Billiton Limited, Ms Ford acted as legal advisor on all aspects of the company's petroleum business both in Australia and overseas.

Mr Bruce Clement *BSc, BEng (Hons), MBA*
(Company Secretary)

Mr Clement is Chief Operating Officer and Company Secretary of ROC. He joined the Company in 1997 and has 27 years' upstream oil and gas industry and banking experience. Mr Clement previously held a number of engineering and management positions within the industry, including with Exxon Corporation in Australia, Ampolex Limited and AIDC Ltd.

Directors' Meetings

The following table sets out the number of Directors' meetings and meetings of committees of Directors held during the financial year and the number of meetings attended by each Director:

	Directors	Audit Committee	Remuneration and Nomination Committee	Finance and Risk Management Committee	Occupational Health, Safety and Environment Committee
Number of meetings held	14	3	3	2	2
Number of meetings attended					
Mr A J Love	11	3	1	2	N/A
Mr W G Jephcott	14	3	3	2	N/A
Dr R J P Doran	14	N/A	3	N/A	N/A
Mr R J Burgess	12	N/A	N/A	2	N/A
Mr R Dobinson	14	N/A	2	N/A	2
Mr S J Jansma, Jr	14	N/A	N/A	2	2
Mr A C Jolliffe	13	3	N/A	2	N/A

Principal Activities

The consolidated entity's principal activities in the course of the financial year were oil and gas exploration, development and production. There were no significant changes in the nature of those activities during the financial year.

Results

The net loss of the consolidated entity for the financial year after income tax was $59.6 million (2005: net profit $45.6 million).

Dividends

No dividends have been paid or declared since the end of the prior financial year and no dividends have been recommended by the Directors in respect of the financial year ended 31 December 2006.

Review of Operations

A review of the consolidated entity's operations during the financial year and the results of those operations are included in the Discussion and Analysis of Financial Statements on pages 36 to 39.

Significant Changes in State of Affairs

There are no other significant changes in the nature of activities or state of affairs of the consolidated entity.

Subsequent Events

Since the end of the financial year, the significant events referred to in Note 37 to the Financial Statements have occurred.

Except for the matters referred to in Note 37, there has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in financial years subsequent to 31 December 2006.

Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations, is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has been omitted from this Directors' Report.

Remuneration Report

This section of the Directors' Report is prepared in accordance with section 300A of the Corporations Act 2001. Where appropriate, information which is included in other parts of the Annual Financial Report is included in this report by reference.

The objective of the Company's remuneration framework is to attract and retain suitably qualified candidates who are motivated to achieve ROC's business objectives and to ensure interests of key employees are aligned with the interests of shareholders.

The Remuneration and Nomination Committee of the Board is responsible for making recommendations to the Board on remuneration policies applicable to Board members and employees of the Company, including compensation arrangements for senior executives, fees for Non-Executive Directors, the Employee Share Option Plan and the Executive Share Option Plan. Senior executive performance reviews and succession planning are also considered by the Remuneration and Nomination Committee.

Remuneration levels for Directors and relevant executives of the Company are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Remuneration and Nomination Committee evaluates the appropriateness of remuneration packages given trends in comparative companies and the objectives of the Company's remuneration strategy.

Remuneration packages typically include remuneration and performance-based incentives in the form of executive and/or employee share options.

Further details of the Company's remuneration policy and practices will be included in the Corporate Governance Statement in the Annual Report.

Remuneration of Key Management Personnel

Details of the nature and amount of each element of the remuneration for the financial year of the Key Management Personnel of the Group under AASB 124 'Related Party Disclosures' are:

		Short Term			Post Employment	Equity Compensation		
	Year	Salary and Fees $	Cash Bonus $	Non-Monetary Benefits $	Superannuation $	Value of Share Options $	Total $	Percentage Performance Related %
Non-Executive Directors								
Mr A J Love	**2006**	**90,000**	**–**	**–**	**–**	**–**	**90,000**	**–**
	2005	80,553	–	–	–	–	80,553	–
Mr W G Jephcott	**2006**	**75,000**	**–**	**–**	**6,750**	**–**	**81,750**	**–**
	2005	63,879	–	–	5,749	–	69,628	–
Mr R J Burgess	**2006**	**45,000**	**–**	**–**	**–**	**–**	**45,000**	**–**
	2005	41,176	–	–	–	–	41,176	–
Mr R Dobinson	**2006**	**45,000**	**–**	**–**	**4,050**	**–**	**49,050**	**–**
	2005	41,176	–	–	3,706	–	44,882	–
Mr S J Jansma, Jr	**2006**	**45,000**	**–**	**–**	**–**	**–**	**45,000**	**–**
	2005	41,176	–	–	–	–	41,176	–
Mr A C Jolliffe	**2006**	**45,000**	**–**	**–**	**–**	**–**	**45,000**	**–**
	2005	41,176	–	–	–	–	41,176	–
Total Non-Executive Directors	**2006**	**345,000**	**–**	**–**	**10,800**	**–**	**355,800**	**–**
	2005	309,136	–	–	9,455	–	318,591	–
Executive Director								
Dr R J P Doran	**2006**	**542,838**	**42,000**	**29,727**	**48,855**	**–**	**663,420**	**6.3**
	2005	484,839	50,000	23,515	43,635	–	601,989	8.3

	Year	Short Term Salary and Fees $	Short Term Cash Bonus $	Short Term Non-Monetary Benefits $	Post Employment Superannuation $	Equity Compensation Value of Share Options $	Total $	Percentage Performance Related %
Specified Executives								
Mr B Clement Chief Operating Officer	**2006**	**360,000**	**–**	**–**	**32,400**	**88,952**	**481,352**	**18.5**
	2005	326,500	10,000	–	29,385	67,712	433,597	17.9
Mr C Way General Manager Operations	**2006**	**343,000**	**–**	**–**	**30,870**	**85,367**	**459,237**	**18.6**
	2005	309,000	50,000	–	27,810	83,512	470,322	28.4
Dr K Hird General Manager Business Development	**2006**	**356,698**	**25,000**	**–**	**32,103**	**64,789**	**478,590**	**18.8**
	2005	286,489	31,650	–	–	44,013	362,152	20.9
Mr W Jamieson General Manager Exploration	**2006**	**270,000**	**–**	**–**	**24,300**	**107,539**	**401,839**	**26.8**
	2005	255,000	7,500	–	22,950	90,283	375,733	26.0
Ms S Ford General Counsel and Company Secretary	**2006**	**270,000**	**–**	**–**	**21,565**	**103,559**	**395,124**	**26.2**
	2005	240,000	31,050	–	17,095	86,710	374,855	31.4
Mr D Paterson General Manager China (appointed 1 October 2006)	**2006**	**185,625**	**–**	**26,878**	**35,269**	**–**	**247,772**	**–**
	2005	–	–	–	–	–	–	–
Total Specified Executives	**2006**	**1,785,323**	**25,000**	**26,878**	**176,507**	**450,206**	**2,463,914**	
	2005	1,416,989	130,200	–	97,240	372,230	2,016,659	
Total	**2006**	**2,673,161**	**67,000**	**56,605**	**236,162**	**450,206**	**3,483,134**	
	2005	2,210,964	180,200	23,515	150,330	372,230	2,937,239	

In accordance with AASB 2 'Share-based Payment', the Company has calculated the attributable value of options for the year using the Monte Carlo simulation technique. Under this technique, the share price is randomly simulated under risked neutral conditions and parameters. The simulation is repeated numerous times to produce a distribution of the option payoff at expiry. The option value is taken as the average payoff amounts calculated discounted back to the valuation date. The value of options is amortised over the vesting period of the option.

Directors' Remuneration

The Company's Constitution specifies that the aggregate remuneration of Non-Executive Directors will be determined by a general meeting. At the Annual General Meeting held in 2005, shareholders approved total remuneration for all Non-Executive Directors of up to $500,000 per annum. Fees are set based on review of external market information in relation to fees paid to other Non-Executive Directors of comparable companies.

Non-Executive Directors' fees for the 2006 financial year were a total of $355,800. No additional fees are paid for sitting on Board Committees. In addition to Director's fees Arun Advisors Limited received $14,931 for consultancy services regarding the Company's hedging strategy. Mr Adam Jolliffe is a director of Arun Advisors Limited.

Non-Executive Directors do not receive incentive-based remuneration or employee share options and do not receive any retirement benefits other than statutory entitlements.

Remuneration Report *(continued)*

Directors' Interests

As at the date of this Directors' Report, the relevant interests of the Directors in the fully paid shares of the Company were:

Directors	Ordinary Shares (Fully Paid)
Mr A J Love	692,717
Mr W G Jephcott	1,117,300
Dr R J P Doran	4,850,001
Mr R J Burgess	340,400
Mr R Dobinson	1,452,337
Mr S J Jansma, Jr	844,641
Mr A C Jolliffe	140,373

At the end of the financial year, none of the Directors has options over ordinary shares of the Company.

Chief Executive Officer and Specified Executives' Remuneration

This section of the Remuneration Report provides specific disclosures in relation to remuneration for the Chief Executive Officer, Dr John Doran, and in accordance with section 300A(1)(c) of the Corporations Act 2001, for the senior executives in the Company with authority for strategic direction and management of the Company Group, including the Company and Group executives who received the highest remuneration for the year ended 31 December 2006. In this report these senior executives are referred to as 'Specified Executives'.

Remuneration levels are competitively set to attract, motivate and retain appropriately qualified and experienced executives capable of discharging their responsibilities. The Remuneration and Nomination Committee is responsible for determining and reviewing the appropriate level and structure of remuneration for the Chief Executive Officer and other Specified Executives. The Remuneration and Nomination Committee Charter can be found on the Company's website www.rocoil.com.au.

Fixed remuneration consists of base salary (which is calculated on a total cost basis and includes any fringe benefit tax charges related to employee benefits), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers individual performance, Company performance and relative comparative remuneration in the market including, where appropriate, review of externally provided remuneration data.

The Company's Remuneration Policy links remuneration of the Chief Executive Officer and Specified Executives to the Company's performance through participation in the Executive Share Option Plan and award of performance bonuses.

The ability to exercise options under the Executive Share Option Plan is subject to continuity of employment and certain share and industry peer group performance hurdles. Under the rules of the Executive Share Option Plan, 30% of the options granted vest after two years. An additional 30% vest after three years and the remaining 40% vest after four years. Options expire six years after grant. Of the options granted to an employee, 50% are performance options and only exercisable if certain share performance benchmarks are met and 50% are price options which require share price performance measures to be met.

Performance options may only be exercised if, between the date of vesting and the date of exercise, the performance hurdles are satisfied. The performance hurdles provide that ROC total shareholder return ('TSR') must be benchmarked against industry performance.

TSR is the total of:

- dividends and capital returns paid to shareholders between the issue date of the executive options and the date the performance hurdle is measured; and
- the difference between the volume weighted average price ('VWAP') for the sale of ROC shares on the ASX in the 90 days before the issue date and the VWAP for sale of shares on the ASX in the 90 days before the date on which the performance hurdle is measured,

expressed as a percentage of the VWAP for the sale of shares on the ASX in the 90 days before the issue date.

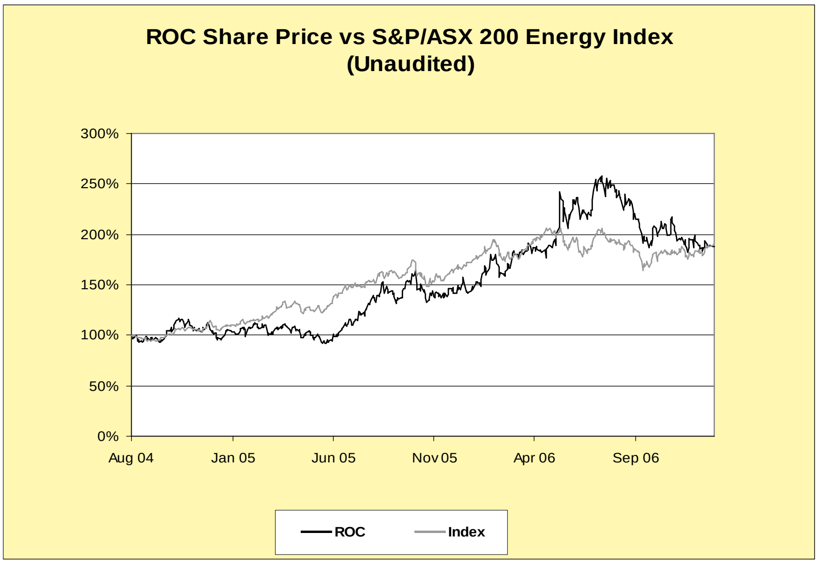
The performance hurdle requires that ROC's TSR must be more than:

- 100% of the percentage increase in the S&P/ASX 200 energy index at any time after the vesting date for 50% of the relevant performance options to be exercised;

- 110% of the percentage increase in the S&P/ASX 200 energy index at any time after vesting for 75% of the relevant performance options to be exercised; and
- 120% of the percentage increase in the S&P/ASX 200 energy index at any time after the vesting date for 100% of the performance options to be exercised.

The exercise price of the price options is calculated as 115%, 122.5% and 130% of the VWAP for sale of shares on the ASX in the 90 days before the issue date.

The graph below shows the performance of the Company's share price compared with the S&P/ASX 200 energy index as detailed below:



Remuneration packages for Specified Executives and the Chief Executive Officer may also include performance based components in the form of cash bonuses. Cash bonuses are generally awarded at the end of each financial year at the discretion of the Remuneration and Nomination Committee and are generally related to an individual's contribution to achievement of particular objectives and/or performance of the Company.

In the case of the Chief Executive Officer, specific goals are set at the commencement of each year and payment of a bonus is assessed against achievement of the specified goals. The goals which are set and reviewed annually relate to the performance objectives and goals of the Company. Details of cash bonuses awarded to the Chief Executive Officer and Specified Executives in 2006 are set out in the remuneration table on page 28 of this Report.

The Company has employment contracts with Specified Executives. The employment contracts do not provide a fixed expiry date. Employment of Specified Executives may be terminated by either party with up to three months' written notice.

If employment of any Specified Executive terminates or the Specified Executive resigns within three months of a substantial diminution of the executive's job contract, status, responsibility or authority, the executive is entitled to a payment in lieu of notice equivalent to the aggregate base remuneration paid to the senior executive over the previous 12 months. A substantial diminution will be deemed to have occurred if the Company ceases to be listed on the ASX and the Specified Executive ceases to be part of the Senior Management Team. If the employment of the Specified Executive is terminated for cause, the Company will have no further obligations other than the amount of base pay due to the executive through to the termination date plus any unpaid amounts of accrued leave.

Mr Dennis Paterson, General Manager, China, was appointed by ROC on 1 October 2006. Mr Paterson is based in Beijing and is responsible for managing ROC's China operations. In recognition of his position in China in addition to receiving his base salary, Mr Paterson receives a location premium equal to 40% of his base salary and a goods and services allowance equal to 25% of his base salary. The Company is also responsible for housing and utility costs in Beijing and payment of local Chinese taxes. In addition to standard leave entitlements, Mr Paterson is entitled to two one week regional leave periods together with business class air fares for Mr Paterson and his spouse and a per diem payment of £300 per day.

Remuneration Report *(continued)*

Service Agreement - R J Doran

Dr Doran has been employed as Chief Executive Officer of the Company since 1 January 1997. His current service agreement was signed on 14 March 2000. There is no fixed term to Dr Doran's contract of employment. Under this contract of employment, Dr Doran's remuneration comprises a base salary, other benefits, superannuation and discretionary cash bonuses. His remuneration may also include the issue of options under the Executive Share Option Plan. To date, no options have been granted.

Remuneration levels are reviewed each year to take into account individual performance as well as the Company's performance. The remuneration may be increased or remain unchanged but may not be decreased as a result of this review unless Dr Doran's role or status within the Company has been diminished. Dr Doran is also required to participate in an annual review of his performance against achievement of specific performance goals conducted by the Remuneration and Nomination Committee. The outcome of this review is taken into account for the purposes of the annual review of Dr Doran's remuneration and award of bonuses.

The Chief Executive Officer's employment contract includes provision for termination by the Company by giving six months' notice in writing. Dr Doran may also terminate the contract at any time by giving six months' notice.

If Dr Doran's authority, status or scope of duties within the Company is materially altered or diminished, or he is requested to relocate from Sydney, then Dr Doran may terminate his employment on not less than one month's notice provided this right is exercised within six months of the change of position. Dr Doran's employment may also be terminated by the Company by not less than three months' notice if Dr Doran is prevented from performing his duties due to illness or incapacity.

Except where Dr Doran resigns or is terminated for cause, the Company is required to pay Dr Doran a lump sum retiring allowance equal to the then base remuneration for the 12 months preceding the date of termination of the agreement less any payment made in lieu of notice plus an amount equal to 1.5 months' base remuneration for each completed year of service up to a maximum of 12 months. Dr Doran's employment may be terminated with immediate effect for cause. If Dr Doran's employment is terminated for cause, ROC has no further obligations other than to pay any accrued entitlements.

Details of Dr Doran's remuneration are included in the tables supporting the Remuneration Report.

Equity-based Remuneration

Details of the options granted to Specified Executives during the year under the Executive Share Option Plan are set out in the table below:

	No.	Grant Date	Weighted Average Fair Value per Option at Grant Date (Note 25) $	Weighted Average Exercise Price per Option (Note 25) $	Expiry Date	First Exercise Date
Mr B Clement	100,000	7 Mar 06	1.15	2.85	7 Mar 12	7 Mar 08
	450,000	31 Dec 06	0.98	3.59	31 Dec 12	31 Dec 08
Mr C Way	50,000	7 Mar 06	1.15	2.85	7 Mar 12	7 Mar 08
	50,000	31 Dec 06	0.98	3.59	31 Dec 12	31 Dec 08
Dr K Hird	100,000	7 Mar 06	1.15	2.85	7 Mar 12	7 Mar 08
	219,000	31 Dec 06	0.98	3.59	31 Dec 12	31 Dec 08
Mr W Jamieson	100,000	7 Mar 06	1.15	2.85	7 Mar 12	7 Mar 08
	100,000	31 Dec 06	0.98	3.59	31 Dec 12	31 Dec 08
Ms S Ford	100,000	7 Mar 06	1.15	2.85	7 Mar 12	7 Mar 08
	171,000	31 Dec 06	0.98	3.59	31 Dec 12	31 Dec 08
Mr D Paterson	450,000	31 Dec 06	0.98	3.59	31 Dec 12	31 Dec 08

Details of the number of options of Specified Executives vesting during the financial year are set out in the table below:

	No.	% of Options Held
Mr B Clement	90,000	10.6
Mr C Way	111,000	23.6
Dr K Hird	58,500	11.4
Mr W Jamieson	120,000	20.0
Ms S Ford	128,700	18.4
Mr D Paterson	–	–

Details of the value of options granted to, exercised (calculated at the date of exercise) and lapsed by Specified Executives in 2006 as part of remuneration are set out below:

	Value of Options Granted during the Year $	Value of Options Exercised during the Year $	Value of Options Lapsed during the Year $	Total Value of Options Granted, Exercised and Lapsed during the Year $	Remuneration Consisting of Options for the Year %
Mr B Clement	554,650	184,052	–	738,702	18.5
Mr C Way	106,350	177,045	–	283,395	18.6
Dr K Hird	328,963	119,634	–	448,597	13.5
Mr W Jamieson	212,700	203,400	–	416,100	26.8
Ms S Ford	282,067	253,197	–	535,264	26.2
Mr D Paterson	439,650	–	–	439,650	–

The number of shares issued to Specified Executives is set out in the table below:

	Shares Issued No.	Weighted Price paid per Share $	Unpaid per Share $
Mr B Clement	90,000	1.71	–
Mr C Way	111,000	1.49	–
Dr K Hird	58,500	1.71	–
Mr W Jamieson	120,000	1.49	–
Ms S Ford	128,700	1.69	–

Shares under Option

During or since the end of the financial year, the Company granted a total of 8,050,600 options over unissued ordinary shares of ROC, comprising 1,532,600 options under the Employee Share Option Plan and 6,518,000 options under the Executive Share Option Plan.

As at the date of this Directors' Report, there were 11,407,600 options, comprising 1,800,400 employee share options and 9,607,200 executive share options granted over unissued ordinary shares of ROC under the Employee Share Option Plan and the Executive Share Option Plan. Refer to Note 25 to the Financial Statements for further details of options outstanding. During the financial year, 249,500 ordinary shares were issued as a result of exercise of options under the Employee Share Option Plan and 772,800 ordinary shares were issued as a result of exercise of options under the Executive Share Option Plan. Since the end of the financial year, no ordinary shares were issued as a result of exercise of share options and none have lapsed or been cancelled.

Optionholders do not have any right, by virtue of the options, to participate in any share issues of the Company or any related body corporate or in the interest issue of any other registered scheme.

Indemnification of Directors and Officers

An indemnity agreement has been entered into between an insurance company and the current Directors of the Company named earlier in this Directors' Report and with the full time executive officers, directors and secretaries of all Australian group companies. Under this agreement, the insurance company has agreed to indemnify these directors and officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Rounding

The Company is a company of the kind referred to in Australian Securities and Investments Commission Class Order 98/0100, dated 10 July 1998 and, in accordance with that Class Order, amounts in the annual financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Corporate Governance

The Board is responsible for the strategic direction of the Company, the identification and implementation of corporate policies and goals, and the monitoring of the business and affairs of the Company on behalf of its shareholders. The Board delegates responsibility for the day-to-day management of ROC to the Chief Executive Officer. In addition, the Board has established a number of committees to support it in matters which require more detailed consideration. All Directors have unrestricted access to Company records and information and receive detailed financial and operational reports from senior management during the financial year on a monthly basis.

The Board is comprised of one Executive Director and six Non-Executive Directors including the Chairman. In accordance with the Company's Constitution and ASX Listing Rules, the Directors (other than the Chief Executive Officer) are subject to re-election by shareholders every three years.

The Board usually meets on a monthly basis, and where appropriate, hears presentations from senior management who may be questioned directly by Board members on operational and commercial issues.

Further details of the Company's corporate governance practices will be set out in the Corporate Governance Statement in the Annual Report.

Finance and Risk Management

Mr W G Jephcott (Chairman), Mr A J Love, Mr R J Burgess, Mr S J Jansma, Jr and Mr A C Jolliffe are members of the Company's Finance and Risk Management Committee. It is responsible for monitoring the operational and financial aspects of the Company's activities and considers recommendations and advice of internal and external advisers on the operational and financial risks of ROC. The Committee evaluates senior management's assessment of risk and its recommendations in relation to the management of that risk, including hedging policies and the nature and level of insurance cover.

Environmental Regulations

The consolidated entity is subject to significant environmental regulations under legislation of the Commonwealth of Australia. The consolidated entity is also a party to various production sharing contracts and exploration and development licences in the countries in which it operates. In most cases, these contracts and licences specify the environmental regulations applicable to oil and gas operations in the respective jurisdictions. The consolidated entity aims to ensure that it complies with the identified regulatory requirements in each jurisdiction in which it operates. There have been no known material breaches of the environmental obligations of the consolidated entity's contracts or licences. The Board has established an Occupational Health, Safety and Environment Committee, comprising Mr R Dobinson and Mr S J Jansma, Jr. The Committee's responsibility is to ensure that occupational health, safety and environmental standards of the Company's operations are maintained at a level equal to, or above, accepted industry standards and that the Company complies with all relevant governments in the jurisdictions in which it operates.

Auditor and Non-Audit Services

No officer of the Company has previously belonged to an audit practice auditing the Company during the financial year. During the financial year, ROC paid its auditor, Ernst & Young (Australia), the following amounts for material non-audit services, excluding services for the June 2006 interim review:

- fees associated with 2006 Rights Issue $87,859; and
- tax compliance $167,445.

The Directors have considered the position and, in accordance with advice received from the Audit Committee, are satisfied that the provision of these services is compatible with the standards of auditor independence imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out above, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the professional statement, including reviewing and auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 40.

This Directors' Report is made in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors:

Mr A J Love
Chairman

Dr R J P Doran
Director and Chief Executive Officer

Sydney, 27 February 2007

Discussion and Analysis of Financial Statements

This discussion and analysis is provided to assist readers in understanding the Financial Statements for the financial year ended 31 December 2006.

FINANCIAL PERFORMANCE

Income Statement

The Group reported a net loss after income tax of $59.6 million (2005: $45.6 million profit) with trading profit increasing to $37.9 million (2005: $0.3 million).

Sales and Production Growth

The Group's overall performance was characterised by production growth with working interest production of 1,999,230 BBLs (2005: 13,635 BBLs) markedly increased due to the acquisition of the Zhao Dong C & D Fields, offshore China and the commencement of production from both the Cliff Head Oil Field, offshore Western Australia, and the Chinguetti Oil Field, offshore Mauritania. Of this, 132,422 BBLs was delivered to host governments in relation to respective governments' share of profit oil under the Group's production sharing contracts.

Oil sales revenue of $151.5 million (2005: $0.9 million) was generated from sales volumes of 2,091,246 BBLs, which achieved an average realised price of $72.43/BBL (US$54.57/BBL) before hedging.

Operating costs of $107.7 million (2005: $0.6 million) included production costs of $25.3 million, amortisation of $60.5 million ($30.28/BBL) and stock and overlift movement of $18.0 million. The production costs include a $4.9 million production bonus paid to the Mauritania Government as part of the revisions to the Production Sharing Contracts. Excluding this once-off production bonus, production costs were $10.19/BBL.

Exploration Expensed

Exploration expenditure of $78.5 million was incurred during the period, including the drilling of eight exploration wells and two appraisal wells; and the acquisition of an extensive seismic programme in the Cabinda South Block, onshore Angola.

In accordance with the *Successful Efforts* accounting policy, $68.7 million in exploration costs were expensed.

Financing Costs

The establishment of a US$305 million loan facility supporting the acquisition of the Zhao Dong Block, Bohai Bay, offshore China, increased finance costs to $13.6 million (2005: $0.2 million), comprising loan establishment fees of $2.8 million and interest costs of $10.1 million. In December 2006, the loan facility was reduced to US$167.5 million, with the amount drawn under the facility reduced to US$137.5 million, using the proceeds of the Rights Issue.

Impairment of Oil and Gas Assets

The Group recorded impairment of assets of $7.7 million attributable to the 57% downgrade of initial 2P reserves from a gross 123 MMBBL to 52.4 MMBBL in the Chinguetti Oil Field.

Income Tax

An income tax benefit of $0.2 million (2005: $40.4 million benefit) was realised during the period with current year income tax of $15.1 million in relation to taxable income generated by the Zhao Dong asset offset by a deferred tax credit of $15.3 million arising mainly from the reversal of timing differences in relation to the Zhao Dong acquisition.

Financial Ratios

Basic loss per share for the year was 25.8 cents based on a weighted average number of fully paid ordinary shares on issue of 231,449,805.

At 31 December 2006, the market capitalisation of the Company was $921.3 million, based on a closing share price of $3.09 per fully paid ordinary shares and 298,161,006 fully paid ordinary shares on issue.

Hedging

At 31 December 2006, the Group's oil price derivative instruments had a positive mark-to-market value of $19.7 million with the majority of these qualifying for hedge accounting which will be reflected in the Income Statement as the related contracts mature. Matured contracts in 2006 resulted in a net loss of $5.8 million, offset against sales revenue.

Due to the timing of sales and the fluctuation in the underlying crude oil differentials a small degree of ineffectiveness was charged to the Income Statement, with a $0.7 million net gain recognised in the current year.

Acquisitions

During the year, ROC completed the acquisition of Roc Oil (Bohai) Company (formerly Apache China Corporation LDC), whose only asset is a 24.5% operated interest in the Zhao Dong Block in the Bohai Bay, offshore China, for a net cash payment of $337.8 million. The fair value of the assets acquired has been incorporated into the consolidated accounts, which resulted in the oil and gas assets increasing by $365.3 million and exploration and evaluation expenditure increasing by $87.5 million.

Balance Sheet

During the period total assets increased to $947.4 million (2005: $264.3 million), total liabilities increased to $474.7 million (2005: $49.3 million), and net assets increased to $472.8 million (2005: $215.0 million).

Development expenditure increased to $576.2 million (2005: $150.6 million) including $365.3 million relating to the acquisition of Roc Oil (Bohai) Company and $124.2 million development expenditure incurred during the period. A transfer of $8.2 million from exploration and evaluation expenditure to development expenditure was attributed to a portion of the initial possible reserves acquired in the Zhao Dong Block transferred to proved and probable reserves during the year.

Capitalised exploration and evaluation expenditure increased to $109.9 million (2005: $26.3 million), including $12.0 million capitalised in connection with the successful drilling of the Wei 6-12 South discovery, Beibu Gulf, offshore China and $87.5 million attributed to the acquisition of Roc Oil (Bohai) Company, partially offset by $8.2 million transferred to development and $2.2 million expensed in relation to previous capitalised costs in the UK.

A 12 month loan facility, maturing in August 2007, was used to finance the purchase of Roc Oil (Bohai) Company. At 31 December 2006, the amount outstanding was $173.7 million, which is planned to be refinanced in 2007 with a longer term debt facility.

At 31 December 2006 the Group held cash assets of $60.6 million and had an undrawn loan facility of $37.9 million.

Cash Flow Statement

Net cash generated from operating activities was $62.5 million, which was supplemented with bank loans of $182.5 million and raised equity of $289.4 million. The funds were primarily used for the $337.8 million acquisition of Roc Oil (Bohai) Company, development expenditure of $115.4 million and exploration expenditure of $86.2 million.

Equity Raisings

The Group completed two successful equity raisings during the period, raising a combined $295.2 million. Specifically, in January 2006 an UK based institutional placement of 28 million shares was completed at $2.71 per share raising $75.9 million before expenses, primarily to support exploration activity in the Cabinda South Block, onshore Angola. In November 2006, a fully underwritten 3 for 8 Renounceable Rights Issue at $2.70 per share raised $219.3 million before expenses, which was used to reduce debt incurred as part of the acquisition of Roc Oil (Bohai) Company and to support operational activities.

OPERATIONAL OVERVIEW

The Group undertook and was involved in a number of significant exploration, development and production operation activities during the year. In particular, the Cliff Head Oil Field and the Chinguetti Oil Field developments were completed and commenced production, the Zhao Dong Block was acquired in the Bohai Bay, offshore China and the Wei 6-12 South Oil Field was discovered and appraised in the Beibu Gulf, offshore China.

Production and Development

The Group incurred $25.3 million in production expenditure and $124.2 million in development expenditure during the year.

Cliff Head Oil Field, WA-31-L, Perth Basin, Offshore Western Australia (ROC: 37.5% and Operator)

Development expenditure of $55.8 million was incurred in relation to the development drilling and the completion of construction and commissioning work at the onshore Arrowsmith Stabilisation Plant. The final development cost incurred was $327 million gross (ROC net: $123 million).

On 1 May 2006, production commenced with total gross production of 2,009,288 BBLs (ROC working interest: 753,483 BBLs) during the year. Gross production averaged 8,200 BOPD during the first eight months of production.

OPERATIONAL OVERVIEW

Production and Development *(continued)*

Chinguetti Oil Field, Offshore Mauritania (ROC: 3.25%)

Development expenditure of $4.3 million was incurred in relation to the completion of construction, hook up and commissioning work on the facilities and on preparation work for Phase 2 development drilling on the field, which commenced with the drilling of the Chinguetti-18 infill well on 29 December 2006.

On 24 February 2006, production commenced with total gross production of 10,923,015 BBLs (ROC working interest: 354,998 BBLs) during the year. Gross production averaged 35,100 BOPD for the period the field was on-stream. Initial production performance from the field did not meet reservoir expectations and a review of reservoir performance was completed, following which the Company revised its estimate of initial recoverable 2P Reserves down from 123 MMBBL to 52.4 MMBBL.

Zhao Dong C & D Oil Fields, Bohai Bay, Offshore China (ROC: 24.5% and Operator)

Development expenditure of $3.3 million was incurred during the period with continued infill drilling.

On 8 August 2006, the Roc Oil (Bohai) Company acquisition was completed with total gross production for the remainder of the year of 3,619,347 BBLs (ROC's working interest: 886,740 BBLs). Gross production averaged 23,650 BOPD for the period, which was lower than forecast due to a production constraint of 22,000 BOPD imposed in October 2006, by the Chinese Government. This production constraint was subsequently lifted in February 2007.

Zhao Dong C4 Oil Field, Bohai Bay, Offshore China (ROC: 11.58% unitised and Operator)

On 31 December 2006, PetroChina advised ROC that it had been notified by the National Development and Reform Commission of the Chinese Government's approval to proceed with the C4 Development Plan for the C4 Oil Field in the Zhao Dong Block, Bohai Bay, offshore China.

Blane Oil Field, North Sea (ROC: 12.5%)

Development expenditure of $45.1 million was incurred in relation to construction of facilities, completion of development drilling and pipelay works for the flowline to the Ula Platform. The Operator advises that first oil production is expected during 2Q 2007.

Enoch Oil & Gas Field, North Sea (ROC: 12.0%)

Development expenditure of $15.4 million was incurred in relation to development activities, including the production testing of the single development well, fabrication of host platform facilities and completion of pipeline post-lay work. The Operator advises that first oil production is expected during 2Q 2007.

Exploration

The Group incurred $78.5 million in exploration expenditure; drilling eight exploration wells, two appraisal wells and acquiring 254 sq km of 3D seismic and 217 km of 2D seismic.

Cabinda South Block, Onshore Angola (ROC: 60% and Operator)

Exploration expenditure of $34.9 million was incurred in relation to the acquisition of 254 sq km of 3D and 217 km of 2D seismic and preparation work for the 2007 exploration drilling programme. The exploration drilling programme is planned to commence during 2Q 2007, with up to six exploration wells planned to be drilled on a range of prospects identified.

West Africa, Offshore Mauritania (ROC: 2.0% - 5.0%)

Exploration expenditure of $10.4 million was incurred in relation to the Woodside-operated exploration wells Zoulé-1 (which commenced drilling in December 2005) in PSC Area C, Block 6 (ROC: 5%), Doré-1 in PSC Area B (ROC: 3.693%), and Colin -1 in PSC A (ROC: 4.155%). All wells were plugged and abandoned without encountering significant hydrocarbons.

Both Dana-operated exploration wells, Flamant-1 in Block 8 (ROC: 5.0%) and Aigrette-1 in Block 7 (ROC: 4.95%), were plugged and abandoned with Aigrette-1 encountering some hydrocarbons however likely to be sub-commercial.

Block 22/12, Beibu Gulf, Offshore China (ROC: 40.0% and Operator)

Exploration expenditure of $14.0 million was mainly incurred in relation to the successful drilling of the Wei 6-12 S-1 exploration well and two sidetrack appraisal wells. The exploration well encountered 95 metres of net hydrocarbon pay, mainly oil, in generally good to excellent reservoirs. Results for the two appraisal wells were encouraging, confirming oil in the expected target horizons. At year end, engineering work was continuing on the reserves evaluation and development feasibility study for the field.

Carnarvon Basin, Offshore Western Australia (ROC: 20.0%)

Exploration expenditure of $7.5 million was incurred in relation to the Jacala-1 well in WA-351-P (ROC: 20%; Operator: BHP Billiton Petroleum Limited) which was plugged and abandoned without encountering significant hydrocarbons.

PEDL030, Onshore UK (ROC: 100% and Operator)

Exploration expenditure of $6.2 million was incurred in relation to the Willows-1 well. After encountering minor gas shows, the well was plugged and abandoned.

Perth Basin, Offshore Western Australia (ROC: 7.5% - 50.0% and Generally Operator)

Exploration expenditure of $2.6 million was incurred mainly in relation to the drilling of Moondah-1 which was plugged and abandoned as a dry well.

H/15 and H/16, Offshore Equatorial Guinea (ROC: 18.75% and Technical Operator)

There was no active exploration during the year with activity focused on well planning and securing a rig for the Aleta well ($0.2 million).

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ROC OIL COMPANY LIMITED

In relation to our audit of the financial report of Roc Oil Company Limited for the year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct, other than one partner of the firm held shares in the company for a short period after our appointment as auditor. The partner did not provide any services to the company and was not involved in the audit.

In my opinion, due to the nature of these contraventions and the rectification steps which have been undertaken, this matter has not impaired our audit independence for the period ended 31 December 2006.

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner
Sydney

27 February 2007

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INDEPENDENT AUDIT REPORT TO MEMBERS OF ROC OIL COMPANY LIMITED

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Roc Oil Company Limited ('the Company') and the consolidated entity, for the year ended 31 December 2006. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 Related Party Disclosures ("remuneration disclosures"), under the heading "Remuneration Report" on pages 28 to 33 in the Directors' Report, as permitted by ASIC Class Order 06/5.

The directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the oversight of the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Company.

Independence

We are independent of the Company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Roc Oil Company Limited is in accordance with:

    (a) the Corporations Act 2001, including:

        (i) giving a true and fair view of the financial position of Roc Oil Company Limited and the consolidated entity at 31 December 2006 and of their performance for the year ended on that date; and

        (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

    (b) other mandatory financial reporting requirements in Australia; and

2. the remuneration disclosures that are contained on pages 28 to 33 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures.

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner
Sydney

27 February 2007

Directors' Declaration

The Directors declare that:

(a) the attached financial statements and notes thereto comply with relevant Australian Accounting Standards;

(b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;

(c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001;

(d) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(e) the Directors have been given the declarations required by section 295A of the Corporations Act 2001.

This Directors' Declaration is made in accordance with a resolution of the Board of Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors:

Mr A J Love
Chairman

Dr R J P Doran
Director and Chief Executive Officer

Sydney, 27 February 2007

Income Statement

For the financial year ended 31 December 2006

		CONSOLIDATED		COMPANY	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Sales revenue	*2*	145,620	861	–	–
Operating costs	*3*	(107,738)	(556)	–	–
Trading profit		**37,882**	**305**	**–**	**–**
Impairment of oil and gas assets	*16*	(7,693)	–	–	–
Other income	*4*	3,905	71,322	1,332	35,677
Exploration expensed	*5*	(68,743)	(48,155)	(2,355)	(1,172)
Other costs	*6*	(11,586)	(18,074)	(80,986)	(47,313)
Finance costs	*7*	(13,565)	(202)	(57)	(32)
(Loss)/profit before income tax		**(59,800)**	**5,196**	**(82,066)**	**(12,840)**
Income tax benefit/(expense)	*8*	188	40,367	(973)	1,249
Net (loss)/profit		**(59,612)**	**45,563**	**(83,039)**	**(11,591)**
Basic (loss)/earnings per share	*26*	(25.8)	23.1		
Diluted (loss)/earnings per share	*26*	(25.8)	23.0		

Balance Sheet

As at 31 December 2006

	Note	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Current Assets					
Cash assets	*9*	60,604	66,377	33,634	23,430
Trade and other receivables	*10*	149,013	2,535	3,892	1,945
Derivatives	*11*	15,056	446	–	–
Inventories	*12*	2,785	917	–	–
Total Current Assets		**227,458**	**70,275**	**37,526**	**25,375**
Non-Current Assets					
Trade and other receivables	*14*	–	–	375,224	174,114
Other financial assets	*15*	–	–	69,007	69,007
Derivatives	*11*	12,167	1,781	–	–
Oil and gas assets	*16*	576,176	150,584	–	–
Exploration and evaluation expenditure	*17*	109,866	26,307	–	–
Property, plant and equipment	*18*	3,285	3,757	1,878	2,061
Deferred tax assets	*8*	18,482	11,600	10,750	16,116
Total Non-Current Assets		**719,976**	**194,029**	**456,859**	**261,298**
Total Assets		**947,434**	**264,304**	**494,385**	**286,673**
Current Liabilities					
Bank loans	*19*	173,747	–	–	–
Trade and other payables	*21*	44,899	27,083	2,170	2,456
Current tax liabilities		7,157	–	–	–
Derivatives	*11*	7,547	6,882	–	–
Provisions	*22*	113,243	998	1,315	998
Total Current Liabilities		**346,593**	**34,963**	**3,485**	**3,454**
Non-Current Liabilities					
Long term liabilities		569	752	569	752
Deferred tax liabilities	*8*	111,644	–	–	–
Derivatives	*11*	–	7,567	–	–
Provisions	*22*	15,851	6,038	601	437
Total Non-Current Liabilities		**128,064**	**14,357**	**1,170**	**1,189**
Total Liabilities		**474,657**	**49,320**	**4,655**	**4,643**
Net Assets		**472,777**	**214,984**	**489,730**	**282,030**
Equity					
Share capital	*23*	602,235	312,868	602,235	312,868
Accumulated losses		(137,781)	(78,169)	(115,206)	(32,167)
Other reserves	*24*	8,323	(19,715)	2,701	1,329
Total Equity		**472,777**	**214,984**	**489,730**	**282,030**

Cash Flow Statement

For the financial year ended 31 December 2006

	Note	CONSOLIDATED		COMPANY	
		Inflow/ (Outflow) 2006 $'000	Inflow/ (Outflow) 2005 $'000	Inflow/ (Outflow) 2006 $'000	Inflow/ (Outflow) 2005 $'000
Cash flows from operating activities					
Receipts from customers		134,553	780	–	–
Other receipts		–	721	–	–
Payments to suppliers and employees		(43,726)	(9,229)	(5,743)	(3,806)
Net payment made for derivatives		(8,645)	(1,966)	–	–
Interest received		3,133	6,307	1,364	4,431
Interest paid and other costs of finance paid		(11,340)	(77)	(57)	(32)
Income taxes paid		(6,979)	–	–	–
Other taxes (paid)/refunded		(4,463)	(374)	(259)	136
Net cash generated from/(used in) operating activities	*9*	**62,533**	**(3,838)**	**(4,695)**	**729**
Cash flows from investing activities					
Acquisition of controlled entities	*34*	(337,771)	–	–	–
Payments for plant and equipment		(431)	(775)	(431)	(735)
Payments for development expenditure		(115,357)	(92,687)	–	–
Payments for exploration expenditure		(86,196)	(40,295)	(2,356)	(1,195)
Proceeds from sale of assets		66	107,857	–	2
Dividends received		–	–	–	29,102
Redemption of preference shares in controlled entity		–	–	–	33,886
Net cash (used in)/generated from investing activities		**(539,689)**	**(25,900)**	**(2,787)**	**61,060**
Cash flows from financing activities					
Proceeds from share issues		296,741	22,093	296,741	22,093
Share issue expenses		(7,374)	(582)	(7,374)	(582)
Bank loan advances		428,883	–	–	–
Bank loan repayments		(246,376)	–	–	–
Reimbursement of funds from entities		–	2,979	151,207	13,644
Provision of funds to entities		–	(4,258)	(422,072)	(140,364)
Net cash generated from/(used in) financing activities		**471,874**	**20,232**	**18,502**	**(105,209)**
Net (decrease)/increase in cash held		**(5,282)**	**(9,506)**	**11,020**	**(43,420)**
Cash at beginning of financial year		66,377	76,035	23,430	66,626
Effect of exchange rate changes on the balance of cash held in foreign currencies		(491)	(152)	(816)	224
Cash at end of financial year	*9*	**60,604**	**66,377**	**33,634**	**23,430**

Statement of Changes in Equity

For the financial year ended 31 December 2006

	CONSOLIDATED			
	Share Capital $'000	Accumulated Loss $'000	Other Reserves $'000	Total $'000
Balance at 1 January 2005	291,357	(123,732)	4,032	171,657
Transfer to Income Statement of functional currency translation differences on sale of subsidiaries	–	–	(9,508)	(9,508)
Loss on cash flow hedges	–	–	(12,242)	(12,242)
Foreign currency translation differences	–	–	(2,996)	(2,996)
Total income and expenses for the year recognised directly in equity	**–**	**–**	**(24,746)**	**(24,746)**
Net profit	–	45,563	–	45,563
Total income and expenses for the year	**–**	**45,563**	**(24,746)**	**20,817**
Issue of share capital	19,802	–	–	19,802
Share issue costs	(582)	–	–	(582)
Exercise of share options	2,291	–	–	2,291
Share-based payments	–	–	999	999
Balance at 31 December 2005	**312,868**	**(78,169)**	**(19,715)**	**214,984**
Net unrealised gain on cash flow hedges	–	–	24,791	24,791
Foreign currency translation differences	–	–	(5,262)	(5,262)
Tax benefit on cash flow hedges	–	–	1,297	1,297
Transfer from cash flow hedge reserve to Income Statement	–	–	5,840	5,840
Total income and expenses for the year recognised directly in equity	**–**	**–**	**26,666**	**26,666**
Net loss	–	(59,612)	–	(59,612)
Total income and expenses for the year	**–**	**(59,612)**	**26,666**	**(32,946)**
Issue of share capital	295,190	–	–	295,190
Share issue costs	(7,374)	–	–	(7,374)
Exercise of share options	1,551	–	–	1,551
Share-based payments	–	–	1,372	1,372
Balance at 31 December 2006	**602,235**	**(137,781)**	**8,323**	**472,777**

Statement of Changes in Equity *(continued)*

For the financial year ended 31 December 2006

COMPANY	Share Capital $'000	Accumulated Losses $'000	Other Reserves $'000	Total $'000
Balance at 1 January 2005	291,357	(20,576)	330	271,111
Net loss	–	(11,591)	–	(11,591)
Issue of share capital	19,802	–	–	19,802
Share issue costs	(582)	–	–	(582)
Exercise of share options	2,291	–	–	2,291
Share-based payments	–	–	999	999
Balance at 31 December 2005	**312,868**	**(32,167)**	**1,329**	**282,030**
Net loss	–	(83,039)	–	(83,039)
Issue of share capital	295,190	–	–	295,190
Share issue costs	(7,374)	–	–	(7,374)
Exercise of share options	1,551	–	–	1,551
Share-based payments	–	–	1,372	1,372
Balance at 31 December 2006	**602,235**	**(115,206)**	**2,701**	**489,730**

Note 1. Summary of Significant Accounting Policies

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and interpretations and other mandatory professional reporting requirements. The financial report has been prepared on the historical cost basis except for certain financial instruments which have been measured at fair value.

The financial report is presented in Australian dollars with all values rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under the ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

The financial statements were authorised for issue on 27 February 2007 by the Board.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include A-IFRS. The financial report, comprising the financial statements, the ROC ('parent entity') financial statements and notes thereto also complies with International Financial Reporting Standards.

Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Group for the reporting period ending 31 December 2006 and are not expected to have a material impact.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent entity and its subsidiaries ('Group'). The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits and losses arising within the Group are eliminated in full.

(d) Oil and gas assets

Development expenditure is stated at cost less accumulated depletion and any impairment in value. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the field, on a unit-of-production basis. Costs are amortised only once production begins.

Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

(e) Exploration and evaluation expenditure

Exploration and evaluation expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration and evaluation expenditure to be expensed in the period it is incurred, except the costs of successful wells, the costs of acquiring interests in new exploration assets and pre-development costs where there is a high degree of probability that the development will go ahead, which are capitalised.

Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash flows which usually is represented by an individual oil or gas field.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to oil and gas assets.

(f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on plant and equipment, including freehold buildings but excluding land. Plant and equipment is depreciated on a straight line basis so as to write down these assets to their estimated residual values over their estimated useful lives to the Group.

The following estimated useful lives are used in the calculation of depreciation:

- plant and equipment 2-10 years;
- leasehold improvements 2-10 years; and
- motor vehicles under finance leases 2-5 years.

Note 1. Summary of Significant Accounting Policies

(f) Property, plant and equipment *(continued)*

Leases of plant and equipment, under which the Group assumes substantially all the risks and benefits of ownership, are classified as finance leases. Finance leases are capitalised and depreciated over their estimated useful lives to the Group.

Operating leases are not capitalised. Payments made under operating leases are charged to the Income Statement in equal instalments over the term of the lease.

(g) Oil and gas stock and materials inventory

Oil and gas stock is valued at the lower of cost and net realisable value. Cost comprises a relevant proportion of all fixed and variable production, overhead, decommissioning and amortisation costs. Net realisable value is determined on the basis of selling prices less expenses to be incurred in transport, pipeline tariffs, handling and royalties, to the point in time where product passes to the purchaser.

Stocks of materials and spare parts are carried at the lower of cost and net realisable value, with cost primarily determined by the first-in-first-out method utilising an average cost basis.

(h) Under/overlift

Lifting or offtake arrangements for oil and gas produced in jointly owned operations are frequently such that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of underlift is recognised as an asset at the lower of cost and net realisable value. Overlift is recognised as a liability at the current market price of oil. The net movement in underlift and overlift is recognised in the Income Statement in cost of sales.

(i) Investments

Investments in subsidiaries are carried at cost less any impairment in value.

(j) Provision for restoration

Provision for restoration is recognised when there is a legal or constructive commitment to do so. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. The amount recognised is the estimated cost of restoration, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements. This asset is subsequently depleted on a unit-of-production basis. Changes in the estimates of commercial reserves or restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the restoration asset.

The unwinding of the effect of discounting on the restoration provision is included within finance costs.

(k) Cash and cash equivalents

Cash is defined as cash at bank and on hand and money market investments readily convertible to cash.

(l) Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting in the consolidated financial statements. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and the Group are identical and both use consistent accounting policies.

The investment in the associates is carried in the consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The consolidated Income Statement reflects the Group's share of the results of operations of the associates.

(m) Trade and other receivables

Trade receivables are recognised and carried at amortised cost less impairment.

(n) Impairment

At each reporting date, the Group assesses whether there is any indication that an asset, other than inventories and deferred tax assets, may be impaired. Where an indicator of impairment exists, the Group makes an estimate of recoverable amount. An impairment loss is recognised in the Income Statement whenever the carrying amount of the asset or cash generating unit exceeds its recoverable amount.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing the value in use, the estimated discounted future cash flows based on management's expectations are used.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Income Statement, net of any amortisation that would have been charged since the impairment.

(o) Provisions

Provisions are recognised when the Company has a present obligation, the future sacrifice of economic benefits is probable and the provision can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date.

(p) Revenue

Sales

Sales are recognised in the financial period during which hydrocarbons are produced, provided that prior to the reporting date they are either sold or delivered in the normal course of business in accordance with agreements with purchasers.

Sales revenue represents amounts invoiced, excluding goods and services tax or value added taxes, in respect of sales to purchasers.

Sales revenue is stated net of the impact of oil and gas price hedge contracts entered into by the Group to reduce future oil and gas price exposure.

Interest

Interest is recognised as the interest accrues to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(q) Finance costs

Finance costs are recognised as an expense when incurred and are calculated using the effective interest rate method. This method amortises the transaction costs over the term of the borrowing.

(r) Share-based payment transactions

The Group provides benefits to employees of the Group in the form of share options.

There are currently two share option plans in place to provide these benefits:

- the Executive Share Option Plan; and
- the Employee Share Option Plan.

The costs of these equity-settled transactions with employees are measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Monte Carlo simulation technique.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to market performance.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Note 1. Summary of Significant Accounting Policies *(continued)*

(s) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable in respect of taxable profits. It is calculated by using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Tax for the current and prior periods is recognised as a liability to the extent that it is unpaid.

Deferred tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liability is recognised for all taxable temporary differences except where:

- the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associate companies and interests in joint ventures, the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

Where deferred tax arises from the initial accounting for a business combination, it is taken into account in the determination of goodwill.

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax consolidation group under Australian taxation law. ROC is the head entity in the tax consolidation group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidation group are recognised in the separate financial statements of the members of the tax consolidation group using the 'stand alone taxpayer' approach. Current tax liabilities and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidation group are recognised by the Company (as head entity in the tax consolidation group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidation group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidation group in accordance with the arrangement.

(t) Goods and services tax

Revenue, expenses and assets are recognised net of amounts of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority in which case the GST is recognised as part of the item of expenditure.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable or payable to the taxation authority is classified as operating cash flows.

(u) Derivative financial instruments

Derivative contracts are entered into to limit the financial exposure of the entity in relation to commodity prices. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are transferred to the profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss recognised in equity is kept in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is transferred to profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

(v) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign exchange monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Foreign subsidiaries have a functional currency other than Australian dollars (usually US dollars and GBP) as a result of the economic environment in which they operate. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of ROC at the date of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the reporting period or at the exchange rates ruling at the date of the transaction.

Foreign operations

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

(w) Employee benefits

Liability to employees for annual leave and long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably. All employment related on-costs (including payroll tax and superannuation contributions) are included in the calculation of the required provision. Provisions for annual leave in respect of services provided by employees up to the reporting date expected to be settled within 12 months, are measured using remuneration levels expected to apply at the time of settlement.

Provisions for annual leave and long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

(x) Interest in joint venture operations

Interests in joint venture operations, where there is joint control, have been reported in the financial statements by including the Group's share of assets and liabilities of the joint venture and its share of any income and expenses incurred.

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Note 2. Sales Revenue				
Oil	151,460	861	–	–
Hedging losses	(5,840)	–	–	–
	145,620	**861**	**–**	**–**

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Note 3. Operating Costs				
Production costs	25,277	524	–	–
Amortisation	60,536	32	–	–
Movement in stock and overlift	17,971	–	–	–
Other	3,954	–	–	–
	107,738	**556**	**–**	**–**

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Note 4. Other Income				
Profit on sale of Saltfleetby Gas Field (see Note 13)	–	63,707	–	–
Interest income: external	3,053	6,170	1,332	4,294
Dividends	–	–	–	29,102
Profit from sale of assets	–	15	–	–
Sundry	57	721	–	–
Exchange gains	–	709	–	2,281
Bad debts recovered	144	–	–	–
Net derivative gains	651	–	–	–
	3,905	**71,322**	**1,332**	**35,677**

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Note 5. Exploration Expensed				
Angola	34,862	12,061	–	–
Australia	10,109	8,718	–	–
China	1,963	2,882	–	–
Equatorial Guinea	240	478	–	–
Mauritania	10,431	12,114	–	–
New Zealand	–	270	–	–
United Kingdom	8,729	10,463	–	–
Other	2,409	1,169	2,355	1,172
	68,743	**48,155**	**2,355**	**1,172**

Note 6. Other Costs				
Operating lease expenses	1,086	1,076	951	956
Bad debts	–	8,024	–	1
Loss from sale of assets	21	–	–	2
Net foreign currency losses	739	–	7,938	–
Depreciation	902	1,167	614	829
Impairment of non-current intercompany receivables	–	–	65,058	40,115
Impairment of shares in unlisted investment	–	63	–	63
Other administration costs	7,466	4,719	5,053	4,348
Share-based payments	1,372	999	1,372	999
Net derivative losses	–	2,026	–	–
	11,586	**18,074**	**80,986**	**47,313**

Note 7. Finance Costs				
Interest expensed on bank loans	10,089	–	–	–
Unwinding of discount – restoration provision	648	125	–	–
Other finance costs	2,828	77	57	32
	13,565	**202**	**57**	**32**

Note 8. Income Tax

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
(a) Composition of income tax				
Income tax charge – current period	(15,113)	–	–	–
Income tax charge – prior period	–	4,982	–	–
Deferred income tax – current period	15,301	35,767	(973)	1,249
Deferred income tax – prior period	–	(382)	–	–
Income tax benefit/(expense)	**188**	**40,367**	**(973)**	**1,249**
(b) Amounts credited directly to equity				
Net gain on revaluation of cash flow hedges	1,297	–	–	–

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 31 December relates to the following:

	BALANCE SHEET 2006 $'000	BALANCE SHEET 2005 $'000	INCOME STATEMENT 2006 $'000	INCOME STATEMENT 2005 $'000
Consolidated				
(i) *Deferred tax assets*				
Accelerated depreciation for tax purposes	(55,037)	(19,455)	(36,189)	13,698
Recognition of tax losses	65,273	28,069	38,321	20,854
Provisions	6,409	2,310	4,064	1,395
Derivatives	1,094	–	(203)	–
Others	743	676	10	(180)
Net deferred tax assets	**18,482**	**11,600**		
(ii) *Deferred tax liabilities*				
Accelerated depreciation for tax purposes	111,644	–	9,298	–
Net deferred tax liabilities	**111,644**	**–**	–	–
Deferred income tax			**15,301**	**35,767**
Company				
Accelerated depreciation for tax purposes	(523)	343	(180)	343
Recognition of tax losses	10,473	16,116	(1,249)	1,249
Provisions	800	(363)	437	(363)
Other	–	20	19	20
Net deferred tax assets	**10,750**	**16,116**		
Deferred income tax			**(973)**	**1,249**

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
(d) Tax losses				
Tax losses not recognised	47,760	21,313	11,900	8,823

(e) The prima facie income tax benefit/(expense) on pre-tax accounting (loss)/profit reconciles to income tax benefit/(expense) in the financial statements as follows:

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(Loss)/profit before income tax	**(59,800)**	**5,196**	**(82,066)**	**(12,840)**
Prima facie income tax calculated as 30% of (loss)/profit before income tax	17,940	(1,559)	24,620	3,852
Tax effect of adjustments				
Non-deductible expenses	(2,880)	(496)	(22,024)	(11,824)
Non-assessable income	–	19,187	–	8,731
Prior year losses now recognised	243	8,539	–	490
Provisions for deferred income tax no longer required	–	13,377	–	–
Overseas tax rate differential	8,918	4,402	–	–
Prior year overprovision	447	4,605	–	–
Reversal of prior year losses recognised	(1,249)	–	(1,249)	–
Tax losses not brought into account	(23,753)	(7,891)	(2,595)	–
Other	522	203	275	–
Income tax benefit/(expense)	**188**	**40,367**	**(973)**	**1,249**

(f) Tax consolidation

ROC and its 100% owned Australian subsidiaries are a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expenses to the wholly owned subsidiaries on a pro rata basis. In addition, the agreement provides for the allocation of income tax liabilities between entities, should the head entity default on its tax payment obligations.

Note 9. Cash Assets

Cash	46,579	23,901	30,125	19,801
Short term deposits	14,025	42,476	3,509	3,629
	60,604	**66,377**	**33,634**	**23,430**

Included in cash assets is $3,509,338 (2005: $3,628,000) which is subject to a charge in favour of Woodside Mauritania Pty Ltd relating to liabilities arising under the contract for lease of the *Berge Helene* Floating Production Storage and Offloading vessel to be used for production from the Chinguetti Oil and Gas Field and $6,318,000 (2005: $10,982,000) which is secured as cash collateral to support credit exposures under ROC's hedging arrangements.

Note 9. Cash Assets *(continued)*

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Reconciliation of net (loss)/profit to net cash flows generated from/(used in) operating activities				
Net (loss)/profit	(59,612)	45,563	(83,039)	(11,591)
Add/(less) non-cash items				
Amortisation	60,536	32	–	–
Impairment of oil and gas assets	7,693	–	–	–
Depreciation	902	1,167	614	829
Impairment of non-current intercompany receivables	–	–	65,058	40,115
Unwinding of discount – restoration provision	648	125	–	–
Provision for office restoration	–	(36)	–	(36)
Provision for employee benefits	481	292	481	292
Impairment of shares in unlisted investment	–	63	–	63
Net foreign currency losses /(gains)	739	(1,129)	7,938	(1,791)
Loss/(profit) on sale of assets	21	(15)	–	2
Profit on sale of non-current assets	–	(63,707)	–	–
Share-based payments	1,372	999	1,372	999
Exploration expensed and written off	68,743	48,155	2,355	1,172
Bad debts (recovered)/expensed	(144)	8,024	–	1
Dividends received	–	–	–	(29,102)
Changes in net assets and liabilities				
Decrease/(increase) in current trade and other receivables	(20,904)	2,648	(1,528)	1,904
Decrease/(increase) in materials and inventories	5,102	65	–	–
(Decrease)/increase in current trade and other payables	15,713	(12,725)	1,081	(879)
(Increase)/decrease in deferred tax	(15,301)	(35,385)	973	(1,249)
Movement in hedge assets and liabilities	(3,456)	2,026	–	–
Net cash generated from/(used in) operating activities	**62,533**	**(3,838)**	**(4,695)**	**729**

Note 10. Current Trade and Other Receivables

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade receivables	24,503	1,573	1,787	1,301
Amount owing by controlled entities	–	–	435	13
Other receivables (see note (a) below)	124,510	962	1,670	631
	149,013	**2,535**	**3,892**	**1,945**

(a) Texaco China BV and New XCL-China LLC have made separate claims against Roc Oil (Bohai) Company, formerly Apache China Corporation LDC, which was acquired 8 August 2006. These claims are recorded as a provision of $111.9 million. Apache Corporation has indemnified Roc Oil Holdings (Cayman Islands) Company and Roc Oil (Bohai) Company for the liabilities arising in relation to these claims together with any associated costs. The Company believes that there is no net exposure and a receivable is recognised for these indemnities for a corresponding amount.

Note 11. Derivatives

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
At fair value:				
Oil price swaps	18,696	(14,449)	–	–
Oil price puts asset	980	2,227	–	–
Net assets/(liabilities)	**19,676**	**(12,222)**	**–**	**–**
Assets – current assets	15,056	446	–	–
– non-current assets	12,167	1,781	–	–
Total Assets	27,223	2,227	–	–
Liabilities – current liabilities	(7,547)	(6,882)	–	–
– non-current liabilities	–	(7,567)	–	–
Total liabilities	(7,547)	(14,449)	–	–
Total	**19,676**	**(12,222)**	**–**	**–**

The Group uses a number of derivative instruments to mitigate the commodity price risk associated with its underlying oil revenues. These instruments include oil price swaps and oil price puts. These derivatives will tend to be priced using pricing benchmarks which correlate as far as possible to the underlying oil revenues.

At 31 December 2006, the Group's oil hedge position was summarised as follows:

		2007	2008	2009	2010	2011	Total
Crude oil price swap contracts							
Volume	(BBL)	1,588,980	777,987	451,998	386,994	155,997	3,361,956
Weighted average Brent oil price	(US$/BBL)	66.61	73.62	72.87	70.51	69.28	69.65
Crude oil price put contracts							
Volume	(BBL)	360,000	–	–	–	–	360,000
Brent oil price	(US$/BBL)	50.00	–	–	–	–	50.00
Volume	(BBL)	100,000	–	–	–	–	100,000
Brent oil price	(US$/BBL)	67.00	–	–	–	–	67.00

The Group has designated the crude oil swap contracts as a cash flow hedge. The hedge has been assessed to be 'highly effective'. There is, however, a small degree of ineffectiveness inherent in the hedges arising from, among other factors, the discount to the underlying crude relative to Brent and the timing of oil liftings.

On this basis, an unrealised profit of $24.8 million with an associated tax credit of $1.3 million has been taken directly to equity, while the element of ineffectiveness in relation to the cash flow hedges amounts to a profit of $1.8 million and has been taken directly to the Income Statement.

The Group also held crude put option contracts, which give the Group the right but not the obligation to sell a volume of crude at the contracted price. The Group does not hedge account these contracts and therefore the mark-to-market loss for the year of $1.1 million on these contracts has been taken directly to the Income Statement.

Note 12. Inventories

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Materials inventory, at cost	793	887	–	–
Oil and gas stock, at cost	1,992	30	–	–
	2,785	**917**	**–**	**–**

Note 13. Non-Current Assets Held for Sale

The sale of the shares in Roc Oil (UK) Limited and Roc Oil (CEL) Limited, whose only asset was the Saltfleetby Gas Field, for a cash consideration of $109 million was completed on 21 January 2005. The calculation of the profit after tax in respect of the sale of Saltfleetby Gas Field is presented below.

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Proceeds on sale of assets	–	108,830	–	–
Less non-current assets held for sale	–	(54,401)	–	–
Less other assets sold	–	(158)	–	–
Less transaction costs	–	(728)	–	–
Add liabilities directly associated with non-current assets held for sale	–	656	–	–
Add transfer of foreign currency translation reserve relating to subsidiaries sold	–	9,508	–	–
Profit before tax	–	63,707	–	–
Release of deferred tax	–	17,564	–	–
Profit after tax	**–**	**81,271**	**–**	**–**

Note 14. Non-Current Trade and Other Receivables

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Amount owing by controlled entities	–	–	540,073	273,905
Less impairment	–	–	(164,849)	(99,791)
	–	**–**	**375,224**	**174,114**

Note 15. Other Non-Current Financial Assets

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Shares in unlisted controlled entities, at cost	–	–	69,007	69,007
Shares in unlisted entity, at cost	–	321	–	321
Less impairment in shares in unlisted investment	–	(321)	–	(321)
	–	**–**	**69,007**	**69,007**

Note 16. Oil and Gas Assets

	CONSOLIDATED			COMPANY
	Producing Assets $'000	Assets under Development $'000	Total $'000	Total $'000
Costs				
Balance at 1 January 2005	533	21,371	21,904	–
Expenditure incurred	53	102,757	102,810	–
Increase in restoration asset	–	3,819	3,819	–
Exchange (loss)/gain	(22)	1,258	1,236	–
Transfer from exploration	–	21,198	21,198	–
Costs at 31 December 2005	**564**	**150,403**	**150,967**	**–**
Acquisition costs	305,533	59,795	365,328	–
Transfer of assets under development to producing assets	130,361	(130,361)	–	–
Expenditure incurred	63,387	60,839	124,226	–
Increase in restoration asset	5,164	4,009	9,173	–
Exchange loss	(14,497)	(869)	(15,366)	–
Transfer from exploration and evaluation expenditure	8,167	–	8,167	–
Costs at 31 December 2006	**498,679**	**143,816**	**642,495**	**–**
Accumulated amortisation				
Balance at 1 January 2005	(387)	–	(387)	–
Charge for the year	(32)	–	(32)	–
Exchange gain	36	–	36	–
Accumulated amortisation at 31 December 2005	**(383)**	–	**(383)**	**–**
Charge for the year	(60,536)	–	(60,536)	–
Impairment of assets	(7,693)	–	(7,693)	–
Exchange gain	2,293	–	2,293	–
Accumulated depreciation at 31 December 2006	**(66,319)**	–	**(66,319)**	**–**
Net book value at 31 December 2006	**432,360**	**143,816**	**576,176**	**–**
Net book value at 31 December 2005	181	150,403	150,584	–

The impairment of assets is attributable to the carrying value of the Chinguetti Oil Field being greater than the estimated discounted future cash flows using a pre-tax discount rate of 13%. This was as a result of the initial gross 2P reserves being reduced to 52.4 MMBBL, a 57% decrease from the initial assessment of 123 MMBBL.

Note 17. Exploration and Evaluation Expenditure

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Opening balance	26,307	52,893	–	–
Acquisition costs	87,471	–	–	–
Expenditure incurred	78,455	41,595	2,355	1,172
Increase in restoration asset	–	68	–	–
Exchange (loss)/gain	(5,457)	1,104	–	–
Transfer to oil and gas assets	(8,167)	(21,198)	–	–
Amounts expensed	(68,743)	(48,155)	(2,355)	(1,172)
	109,866	**26,307**	**–**	**–**

The ultimate recovery of the capitalised exploration and evaluation expenditure is dependent on the successful development and commercial exploitation or the commercial sale of the relevant areas of interest.

Note 18. Property, Plant and Equipment

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Costs				
Opening balance	9,645	9,372	5,889	5,180
Expenditure incurred	431	775	431	735
Disposals	(1,526)	(245)	(59)	(26)
Exchange gain /(loss)	208	(257)	–	–
Costs at 31 December	**8,758**	**9,645**	**6,261**	**5,889**
Accumulated depreciation				
Opening balance	(5,888)	(5,006)	(3,828)	(3,020)
Charge for the year	(902)	(1,167)	(614)	(829)
Disposals	1,439	124	59	21
Exchange (loss)/gain	(122)	161	–	–
Accumulated depreciation at 31 December	**(5,473)**	**(5,888)**	**(4,383)**	**(3,828)**
Net book value	**3,285**	**3,757**	**1,878**	**2,061**

Note 19. Interest Bearing Loans and Borrowings

(a) Current

	Maturity Year	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
US$137,500,000 secured bank loan	2007	173,747	–	–	–
		173,747	**–**	**–**	**–**

(b) Terms and conditions

This 12 month loan, maturing in August 2007, has been provided by Commonwealth Bank of Australia, BOS International (Australia) Limited and Societe Generale Australia Branch to finance the purchase of Roc Oil (Bohai) Company, formerly Apache China Corporation LDC and to provide working capital for the Group. The original loan to purchase the company has since been reduced using the proceeds of the Rights Issue.

The Company intends to refinance the bridging loan with a long-term facility prior to its maturity in August 2007. While the Directors are confident that the present environment is conducive to refinancing, future external events may impact the availability or terms and cannot be determined with certainty.

The interest rate is USD LIBOR plus a fixed margin.

(c) Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Total loan facilities:				
US$167,500,000 secured bank loan	211,677	–	–	–
	211,677	–	–	–
Facilities used at reporting date:				
US$137,500,000 secured bank loan	173,765	–	–	–
	173,765	–	–	–
Facilities unused at reporting date:				
US$30,000,000 secured bank loan	37,912	–	–	–
	37,912	–	–	–

(d) Assets pledged as security

ROC has guaranteed the performance of Roc Oil (Finance) Pty Limited and other ROC subsidiaries by giving security in relation to the loans referred to in (c) above. ROC and Roc Oil (Finance) Pty Limited have granted charges over all their assets in favour of CBA Corporate Services (NSW) Pty Ltd. In addition, the shares of the following ROC subsidiaries have been pledged to CBA Corporate Services (NSW) Pty Ltd, which are the entities that hold the producing assets: Roc Oil (Bohai) Company, Roc Oil (Mauritania) Company, Roc Oil (GB) Limited and Roc Oil (Chinguetti) BV.

(e) Effective interest rate risk

Information regarding the effective interest rate risk of the interest bearing loans and borrowings is set out in Note 36.

(f) Fair values

The carrying amount of the Group's current borrowings approximate their fair value.

Note 20. Controlled Entities

Name of Entity	Country of Incorporation	Ownership and Voting Interest 2006 %	Ownership and Voting Interest 2005 %
Parent entity			
Roc Oil Company Limited	Australia	100	100
Controlled entities			
Roc Oil (Gobi) Pty Limited	Australia	100	100
Roc Oil (WA) Pty Limited	Australia	100	100
Roc Oil (China) Pty Limited	Australia	100	100
Roc Oil (New Zealand) Pty Limited	Australia	100	100
Roc Oil Australia Holdings Pty Limited	Australia	100	100
Roc Oil International Holdings Pty Limited	Australia	100	100
Elixir Corporation Pty Ltd	Australia	100	100
Roc Oil (Finance) Pty Limited	Australia	100	100
Roc Oil Holdings (Cayman Islands) Company	Cayman Islands	100	100
Roc Oil (Bohai) Company (formerly Apache China Corporation LDC)	Cayman Islands	100	–
Roc Oil (China) Company	Cayman Islands	100	100
Roc Oil (Cabinda) Company	Cayman Islands	100	100
Roc Oil (Mauritania) Company	Cayman Islands	100	100
Roc Oil (Casamance) Company	Cayman Islands	100	100
Roc Oil (Equatorial Guinea) Company	Cayman Islands	100	100
Roc Oil (Angola) Limited	Cayman Islands	100	100
Lacula Oil Company Limited	Cayman Islands	100	100
Roc Oil (Maboque) Company	Cayman Islands	100	100
Roc Oil (Falklands) Limited	United Kingdom	100	100
Roc Oil (Europe) Limited	United Kingdom	100	100
Roc Oil (GB Holdings) Limited	United Kingdom	100	100
Roc Oil (GB) Limited	United Kingdom	100	100
Roc Canada Inc	Canada	100	100
Roc Oil (Chinguetti) BV	Netherlands	100	100

Note 21. Current Trade and Other Payables

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Trade payables	10,006	395	1,140	255
Accrued liabilities	24,023	25,499	732	402
Amount owing to associate companies	1,250	1,189	–	–
Stock overlift	9,439	–	–	–
Other	181	–	181	–
Amount owing to controlled entities	–	–	117	1,799
	44,899	**27,083**	**2,170**	**2,456**

Note 22. Provisions

	CONSOLIDATED Litigation Claims $'000	CONSOLIDATED Employee Benefits $'000	CONSOLIDATED Restoration $'000	CONSOLIDATED Total $'000	COMPANY Employee Benefits $'000	COMPANY Total $'000
Balance at 1 January 2006	–	1,435	5,601	7,036	1,435	1,435
Arising during the year	115,516	1,130	9,085	125,731	1,130	1,130
Unwinding of discount	–	–	648	648	–	–
Utilised	–	(649)	(73)	(722)	(649)	(649)
Foreign exchange adjustments	(3,588)	–	(11)	(3,599)	–	–
Balance at 31 December 2006	**111,928**	**1,916**	**15,250**	**129,094**	**1,916**	**1,916**
Current – 2006	111,928	1,315	–	113,243	1,315	1,315
Non-current – 2006	–	601	15,250	15,851	601	601
Total 2006	**111,928**	**1,916**	**15,250**	**129,094**	**1,916**	**1,916**
Current – 2005	–	998	–	998	998	998
Non-current – 2005	–	437	5,601	6,038	437	437
Total 2005	**–**	**1,435**	**5,601**	**7,036**	**1,435**	**1,435**

The employee benefits provisions relate to annual leave and long service leave.

The restoration provisions relate to the estimated costs associated with the restoration of sites that will be incurred at the conclusion of the economic life of the asset.

The litigation claims relates to the acquisition of Roc Oil (Bohai) Company (formerly Apache China Corporation LDC). See Note 10(a).

Note 23. Share Capital

	2006 Number of Shares	2005 Number of Shares	2006 $'000	2005 $'000
Movement in fully paid ordinary shares				
Balance at beginning of financial year	187,912,493	176,038,703	312,868	291,357
Issue of shares pursuant to exercise of options under the share option plans	1,022,300	1,972,800	1,551	2,291
Shares issued	109,226,213	9,900,990	287,816	19,220
Balance at end of financial year	**298,161,006**	**187,912,493**	**602,235**	**312,868**

All issued fully paid ordinary shares carry one vote per share and carry the right to dividends.

The Company has two employee share option plans under which options to subscribe for the Company shares have been granted to employees and executives. Refer Note 25.

Note 24. Other Reserves

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	Foreign Currency Translation Reserve $'000	Employee Equity Benefit Reserve $'000	Net Unrealised Oil Price Hedging (Losses)/Gains $'000	Total $'000
Balance at 1 January 2005	3,702	330	–	4,032
Transfer to Income Statement of functional currency translation differences on sale of subsidiaries	(9,508)	–	–	(9,508)
Share-based payments	–	999	–	999
Foreign currency translation differences	(2,996)	–	–	(2,996)
Net loss on cash flow hedges	–	–	(12,242)	(12,242)
Balance at 31 December 2005	(8,802)	1,329	(12,242)	(19,715)
Share-based payments	–	1,372	–	1,372
Foreign currency translation differences	(5,262)	–	–	(5,262)
Net unrealised gain on cash flow hedges	–	–	24,791	24,791
Tax benefit on cash flow hedges	–	–	1,297	1,297
Transfer from cash flow hedge reserve to Income Statement	–	–	5,840	5,840
Balance at 31 December 2006	**(14,064)**	**2,701**	**19,686**	**8,323**

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	Foreign Currency Translation Reserve $'000	Employee Equity Benefit Reserve $'000	Net Unrealised Oil Price Hedging (Losses)/Gains $'000	Total $'000
Balance at 1 January 2005	–	330	–	330
Share-based payments	–	999	–	999
Balance at 31 December 2005	–	1,329	–	1,329
Share-based payments	–	1,372	–	1,372
Balance at 31 December 2006	**–**	**2,701**	**–**	**2,701**

Note 25. Employee Benefits

(a) Employee Share Option Plan and Executive Share Option Plan

The Company has two share option plans, the Employee Share Option Plan and the Executive Share Option Plan, the details of which are as set out below.

Following the November 2006 Rights Issue, in accordance with ASX Listing Rules and the rules of each of the plans, the exercise price for options granted under the Employee Share Option Plan and the Executive Share Option Plan each were reduced by 22 cents.

Employee Share Option Plan

Under the Employee Share Option Plan, the options granted vest after two years. Options expire five years after they are granted.

The exercise price of the options is the price of the sale of shares on the ASX on the day of the grant.

Options may be exercised two years after the date the option was granted. If there is a change of control of the Company, all unexercised options will become immediately exercisable.

The following reconciles the outstanding share options granted under the Employee Share Option Plan at the beginning and end of the financial year:

	2006		2005	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance at beginning of financial year	580,300	1.21	2,457,300	1.21
Granted	1,532,600	3.05	125,800	1.64
Exercised	(249,500)	1.02	(1,972,800)	1.16
Forfeited	(33,000)	1.51	(30,000)	1.77
Lapsed	(30,000)	0.87	–	–
Balance at end of financial year	1,800,400	2.80	580,300	1.43
Exercisable	212,800	1.33	319,300	1.19

The weighted average share price when the share options were exercised in 2006 was $3.35.

The range of exercise prices at the end of the financial year is between $1.01 and $3.10 with a weighted average remaining contractual life of 4.4 years.

Executive Share Option Plan

Under the rules of the Executive Share Option Plan, 30% of the options granted vest after two years. An additional 30% vest after three years and the remaining 40% vest after four years. Options expire six years after they are granted. Of the options granted to an employee, 50% are performance options and are only exercisable if certain share performance benchmarks are met and 50% are price options.

The exercise price of performance options is calculated as the weighted average price for sale of shares on the ASX in the 90 days before the grant date. The exercise price for price options is calculated as 115%, 122.5% and 130% of this price respectively over the vesting period.

	2006		2005	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance at beginning of financial year	4,561,000	1.64	3,183,000	1.77
Granted	6,518,000	3.43	1,421,000	2.07
Exercised	(772,800)	1.64	–	–
Forfeited	(699,000)	2.14	(43,000)	2.05
Lapsed	–	–	–	–
Balance at end of financial year	9,607,200	2.83	4,561,000	1.86
Exercisable	147,900	1.49	–	–

Note 25. Employee Benefits *(continued)*

The weighted average share price when the share options were exercised in 2006 was $3.46.

The range of exercise prices at the end of the financial year is between $1.35 and $4.19 with a weighted average remaining contractual life of 5.2 years.

Fair value of options

The weighted average fair value of the share options granted during the financial year is $1.02 per share. Options were valued using the Monte Carlo simulation technique. Under this technique, the share price is randomly simulated under risked neutral conditions and parameters. The simulation is repeated numerous times to produce a distribution of the option payoff at expiry. The option value is taken as the average payoff amounts calculated discounted back to the valuation date. Options carry no voting rights or rights to dividends.

The following are the assumptions made in determining the fair value of the options:

	Issue 31 December 2006	Issue 22 November 2006	Issue 7 March 2006
Share price	$3.09	$3.22	$3.13
Share price volatility	30%	30%	30%
Energy index volatility	16%	18%	16%
Correlation between energy index and ROC share price	38%	38%	36%
Risk free rate	6.1%	5.9%	5.4%

As at 31 December 2006, there were a total of 11,407,600 options on issue, comprising 1,800,400 options under the Employee Share Option Plan and 9,607,200 options under the Executive Share Option Plan.

(b) Superannuation plans

During the 2006 financial year, the Company contributed to accumulation type benefit funds administered by fund managers. The funds cover all Australian domiciled employees of the Company. Employee and employer contributions are based on a fixed percentage of cash salary. The current contribution is 9% (2005: 9%) of employee cash remuneration.

(c) Employee benefits expensed

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Salary and wages	11,442	11,074	10,184	8,572
Social security contributions	150	376	–	–
Termination benefits	676	45	–	–
Other benefits	114	71	46	31
Workers' compensation	73	172	47	144
Superannuation	945	907	807	679
Share-based payments	1,372	999	1,372	999
	14,772	**13,644**	**12,456**	**10,425**

Note 26. Earnings per Share

Basic (loss)/earnings per share amounts are calculated by dividing net profit/(loss) for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted (loss)/earnings per share amounts are calculated by dividing the net profit/(loss) for the year by the weighted average number of ordinary shares outstanding during the year, adjusted by the effects of dilutive options.

The following table reflects the share data used in the total operation's basic and diluted (loss)/earnings per share computations.

	2006	2005
	Number of Shares	Number of Shares
Weighted average number of ordinary shares for basic (loss)/earnings per share	231,449,805	197,011,025
Effect of dilution:		
Share options	–	772,991
Adjusted weighted average number of ordinary shares for diluted (loss)/earnings per share	231,449,805	197,784,016
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted (loss)/earnings per share	–	1,118,877
Weighted average number of shares that were not included in the calculation of (loss)/earnings per share as they are anti-dilutive	2,394,393	–

Prior year weighted average number of shares has been adjusted to reflect the bonus element of the Rights Issue in 2006.

Note 27. Segment Information

Primary reporting – geographical segments

The Group's risks and returns are affected predominantly by differences in the geographical areas in which it operates, therefore, geographical segments is considered its primary reporting format.

Secondary reporting – business segments

The Group operates predominantly in one business, namely exploration, development and production of hydrocarbons.

Segment accounting policies

Segment accounting policies are the same as the Group's policies.

Composition of each geographical segment

West Africa comprises areas of interest in Angola, Equatorial Guinea and Mauritania.

Note 27. Segment Information *(continued)*

	United Kingdom $'000	Australia $'000	China $'000	West Africa $'000	Unallocated $'000	Total $'000
For the financial year ended 31 December 2006						
Sales revenue	**159**	**52,626**	**68,287**	**24,548**	–	**145,620**
Segment result:						
(Loss)/profit before income tax	(11,276)	14,132	9,546	(51,418)	(20,784)	(59,800)
Income tax benefit	–	–	–	–	188	188
Net (loss)/profit	**(11,276)**	**14,132**	**9,546**	**(51,418)**	**(20,596)**	**(59,612)**
As at December 2006						
Segment assets/liabilities:						
Assets	86,927	139,812	555,949	57,649	107,097	947,434
Liabilities	(30,170)	(9,697)	(121,396)	(6,755)	(306,639)	(474,657)
Other segment information:						
Expenditure incurred on exploration and evaluation	6,503	10,109	13,963	45,469	2,411	78,455
Expenditure incurred on oil and gas assets	60,513	55,758	3,624	4,331	–	124,226
Depreciation	289	–	–	–	613	902
Amortisation	–	19,605	27,942	12,989	–	60,536
Exploration expensed and written off	(8,729)	(10,109)	(1,963)	(45,533)	(2,409)	(68,743)
Impairment of oil and gas assets	–	–	–	(7,693)	–	(7,693)

	United Kingdom $'000	Australia/ New Zealand $'000	China $'000	West Africa $'000	Unallocated $'000	Total $'000
For the financial year ended 31 December 2005						
Sales revenue	**699**	**162**	**–**	**–**	**–**	**861**
Segment result:						
Profit/(loss) before income tax	45,217	(8,163)	(2,915)	(25,135)	(3,808)	5,196
Income tax benefit	–	–	–	–	40,367	40,367
Net profit/(loss)	**45,217**	**(8,163)**	**(2,915)**	**(25,135)**	**36,559**	**45,563**
As at December 2005						
Segment assets/liabilities:						
Assets	24,773	95,726	1,907	59,158	82,740	264,304
Liabilities	(9,355)	(15,690)	(1,000)	(4,792)	(18,483)	(49,320)
Other segment information:						
Expenditure incurred on exploration and evaluation	6,489	9,677	2,882	21,378	1,169	41,595
Expenditure incurred on oil and gas assets	11,731	69,578	–	21,501	–	102,810
Depreciation	338	–	–	–	829	1,167
Amortisation	9	23	–	–	–	32
Exploration expensed and written off	10,463	8,988	2,882	24,653	1,169	48,155

Note 28. Related Party Disclosures

ROC and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are generally conducted on normal terms and conditions.

Detail of related party transactions and amounts are set out in:

- Notes 10 and 14 as to amounts owing by controlled entities;
- Notes 15 and 20 as to investments in controlled entities;
- Note 21 as to amounts owing to controlled entities and associate companies;
- Note 31 as to investments in associate companies; and
- Note 33 as to disclosures relating to key management personnel.

Note 29. Commitments for Expenditure

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Capital commitments				
Not longer than one year				
Joint ventures	70,305	133,700	–	–
Longer than one year but not longer than five years				
Joint ventures	7,901	1,956	–	–
	78,206	135,656	–	–
(b) Operating lease rental commitments				
Not longer than one year	3,825	2,071	940	847
Longer than one year but not longer than five years	10,479	9,381	3,196	3,696
Longer than five years	86	1,382	–	163
	14,390	12,834	4,136	4,706

Note 30. Joint Ventures

The Group has an interest (rounded to two decimal places) in the following joint ventures as at 31 December 2006:

Country	Block	Principal Activities	Interest 2006 %	Interest 2005 %
Australia	WA-286-P	Oil and gas exploration	37.50	37.50
	WA-31-L (Cliff Head)	Oil production	37.50	37.50
	TP/15	Oil and gas exploration	20.00	20.00
	WA-325-P	Oil and gas exploration	37.50	37.50
	WA-327-P	Oil and gas exploration	37.50	37.50
	WA-226-P(5)	Oil and gas exploration	7.50	7.50
	WA-349-P(1)	Oil and gas exploration	50.00	50.00
	WA-351-P	Oil and gas exploration	20.00	20.00
	EP413	Oil and gas exploration	0.25	0.25
	L14 (Jingemia)	Oil production	0.25	0.25
Equatorial Guinea	H/15 and H/16	Oil and gas exploration	18.75	18.75
Mauritania	Area A	Oil and gas exploration	4.16	4.16
	Area B (Chinguetti)	Oil and gas exploration/production	3.69/3.25(3)	3.69/3.25(3)
	Area C Block 2	Oil and gas exploration	3.20	3.20
	Area C Block 6	Oil and gas exploration	5.00	5.00
	Block 1	Oil and gas exploration	2.00	2.00
	Block 7	Oil and gas exploration	4.95	4.95
	Block 8(6)	Oil and gas exploration	5.00	2.00
Angola	Cabinda South Block	Oil and gas exploration	60.00	60.00
China	Beibu Gulf Block 22/12	Oil and gas exploration	40.00	40.00
	Zhao Dong Block (C & D Fields/C4 Field)	Oil development/production	24.50/11.58(4)	–
Onshore UK	PEDL002	Oil and gas exploration	5.00	5.00
UK North Sea	P111 (Block 30/3a) (Blane)	Oil and gas development	15.24/12.50(2)	15.24/12.50(2)
	P219 (Block 16/13a) (Enoch)	Oil and gas development	15.00/12.00(2)	15.00/12.00(2)
	P755 (Block 30/22b)	Oil and gas exploration	12.00	12.00

(1) Surrendered 5 January 2007, subject to government consent.

(2) Unitised interest subject to redetermination following commencement of production from the Blane Oil Field and Enoch Oil and Gas Field respectively.

(3) Post-government back-in in Chinguetti Oil Field.

(4) Unitised interest in the C4 Field subject to redetermination following commencement of production.

(5) ROC has withdrawn effective 5 March 2007.

(6) Dana Petroleum (E&P) Limited assignment of 3% interest to ROC was concluded 15 January 2007.

The Group's share of net working interest production from the above joint ventures during the financial year was 1,997,835 BBLs (2005: 2,320 BBLs).

Note 30. Joint Ventures *(continued)*

The following amounts represent the Group's interest in assets and liabilities in the above joint venture operations. The amounts are included in the financial statements as follows:

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Current assets	12,243	3,898	–	–
Non-current assets	685,806	151,075	–	–
Total assets	**698,049**	**154,973**	**–**	**–**
Current liabilities	28,292	21,756	–	–
Non-current liabilities	14,647	4,976	–	–
Total liabilities	**42,939**	**26,732**	**–**	**–**

Exploration expenditure commitments and contingent liabilities in respect of joint venture operations are detailed in Note 29 and Note 35 respectively.

Note 31. Associate Companies

Details of investments in associate companies are as follows:

Name of Associate Company	Country where Incorporated	Principal Activity	Balance Date	Beneficial Interest in Ordinary Shares at 31 December 2006 %	Beneficial Interest in Ordinary Shares at 31 December 2005 %	Book Value of Ordinary Shares at 31 December 2006 $'000	Book Value of Ordinary Shares at 31 December 2005 $'000	Contribution to Consolidated (Loss)/Profit 2006 $'000	Contribution to Consolidated (Loss)/Profit 2005 $'000
Croft (UK) Limited	UK	Holding company	31 December	50	50	–	–	–	–
Croft Oil & Gas plc	UK	Holding company	31 December	50	50	–	–	–	–
Croft Exploration Limited	UK	Dormant	31 December	50	50	–	–	–	–
Croft Offshore Oil Limited	UK	Dormant	31 December	50	50	–	–	–	–
China Oil Shale Development Company Limited	Hong Kong	Dormant	31 December	50	50	–	–	–	–

Note 32. Remuneration of Auditors

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Amounts due and recoverable by the auditor of the parent entity:				
Auditing and review of the financial report	113,625	137,500	113,625	137,500
Fees associated with the Rights Issue	87,859	–	87,859	–
Tax compliance	167,445	–	167,445	–
Fees associated with conversion to A-IFRS	–	50,000	–	50,000
Other services	–	5,250	–	5,250
	368,929	**192,750**	**368,929**	**192,750**
Amounts due by related practices of Ernst & Young (Australia) for:				
Audit and review of the financial report	31,856	–	–	–
Taxation and accounting services	76,578	–	–	–
	477,363	**192,750**	**368,929**	**192,750**

Deloitte Touche Tohmatsu, Australia was the auditor for the Company in 2005.

Note 33. Key Management Personnel Disclosures

(a) Details of key management personnel

Mr A J Love	Chairman (non-executive)
Mr W G Jephcott	Deputy Chairman (non-executive)
Dr R J P Doran	Director and Chief Executive Officer
Mr R J Burgess	Director (non-executive)
Mr R Dobinson	Director (non-executive)
Mr S J Jansma, Jr	Director (non-executive)
Mr A C Jolliffe	Director (non-executive)
Mr B Clement	Chief Operating Officer
Mr C Way	General Manager Operations
Dr K Hird	General Manager Business Development
Mr W Jamieson	General Manager Exploration
Ms S Ford	General Counsel and Company Secretary
Mr D Paterson	General Manager China (appointed 1 October 2006)

(b) Remuneration

(i) Remuneration policy

The Remuneration and Nomination Committee is responsible for determining and reviewing the appropriate level and structure of remuneration of the executive team. Executive remuneration is set at levels and structured to attract, motivate, reward and retain good performers to drive the business effectively. Further details of the Company's remuneration policy are set out in the Remuneration Report.

The Company has an Executive Share Option Plan. Under this plan, executives are issued options to subscribe for ordinary shares in the Company at the discretion of the Directors. The plan provides an incentive to the executive team to achieve significant long term growth in the Company's share price. For details, see Note 25 and the Directors' Report.

Note 33. Key Management Personnel Disclosures

(b) Remuneration *(continued)*

(ii) Remuneration of Key Management Personnel

The aggregate of compensation of the Key Management Personnel of the Group and the Company is set out below:

	CONSOLIDATED		COMPANY	
	2006 $	2005 $	2006 $	2005 $
Short term employee benefits	2,796,766	2,414,679	2,584,263	2,414,679
Post-employment benefits	236,162	150,330	200,893	150,330
Share-based payments	450,206	372,230	450,206	372,230
	3,483,134	**2,937,239**	**3,235,362**	**2,937,239**

ROC has applied the option under Corporations Amendment Regulations 2006 to transfer Key Management Personnel remuneration disclosures required by AASB124 'Related Party Disclosures', paragraphs AUS25.4 to AUS25.7.2 to the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

(c) Option holdings

2006	1 Jan 2006 Balance at Beginning of Financial Year	Executive Share Options Granted as Remuneration	Options Exercised	Options Lapsed	31 Dec 2006 Balance at End of Financial Year	Vested and Exercisable at 31 Dec 2006
Mr B Clement	300,000	550,000	(90,000)	–	760,000	–
Mr C Way	370,000	100,000	(111,000)	–	359,000	–
Dr K Hird	195,000	319,000	(58,500)	–	455,500	–
Mr W Jamieson	400,000	200,000	(120,000)	–	480,000	–
Ms S Ford	429,000	271,000	(128,700)	–	571,300	–
Mr D Paterson	–	450,000	–	–	450,000	–
	1,694,000	**1,890,000**	**(508,200)**	**–**	**3,075,800**	**–**

2005	1 Jan 2005 Balance at Beginning of Financial Year	Executive Share Options Granted as Remuneration	Options Exercised	Options Lapsed	31 Dec 2005 Balance at End of Financial Year	Vested and Exercisable at 31 Dec 2005
Mr B Clement	650,000	–	(350,000)	–	300,000	–
Mr C Way	450,000	–	(80,000)	–	370,000	–
Dr K Hird	381,000	–	(186,000)	–	195,000	–
Mr W Jamieson	500,000	–	(100,000)	–	400,000	–
Ms S Ford	429,000	–	–	–	429,000	–
	2,410,000	**–**	**(716,000)**	**–**	**1,694,000**	**–**

(d) Shareholdings

2006	1 Jan 2006 Balance at Beginning of Financial Year	Change on Exercise of Options	Net Change from On-market Transactions	31 Dec 2006 Balance at End of Financial Year
Mr A J Love	542,712	–	150,005	692,717
Mr W G Jephcott	1,031,888	–	85,412	1,117,300
Dr R J P Doran	4,500,000	–	350,001	4,850,001
Mr R J Burgess	481,620	–	(141,220)	340,400
Mr R Dobinson	1,221,659	–	230,678	1,452,337
Mr S J Jansma, Jr	800,000	–	44,641	844,641
Mr A C Jolliffe	133,230	–	7,143	140,373
Mr B Clement	50,000	90,000	–	140,000
Mr C Way	9,600	111,000	(107,400)	13,200
Dr K Hird	249,240	58,500	26,278	334,018
Mr W Jamieson	1,600	120,000	(119,400)	2,200
Ms S Ford	–	128,700	–	128,700
Mr D Paterson	–	–	–	–
	9,021,549	**508,200**	**526,138**	**10,055,887**

2005	1 Jan 2005 Balance at Beginning of Financial Year	Change on Exercise of Options	Net Change from On-market Transactions	31 Dec 2005 Balance at End of Financial Year
Mr A J Love	542,712	–	–	542,712
Mr W G Jephcott	1,031,888	–	–	1,031,888
Dr R J P Doran	4,701,501	–	(201,501)	4,500,000
Mr R J Burgess	589,870	–	(108,250)	481,620
Mr R Dobinson	1,221,659	–	–	1,221,659
Mr S J Jansma, Jr	1,897,151	–	(1,097,151)	800,000
Mr A C Jolliffe	133,230	–	–	133,230
Mr B Clement	–	350,000	(300,000)	50,000
Mr C Way	9,400	80,000	(79,800)	9,600
Dr K Hird	259,240	186,000	(196,000)	249,240
Mr W Jamieson	1,600	100,000	(100,000)	1,600
Ms S Ford	–	–	–	–
	10,388,251	**716,000**	**(2,082,702)**	**9,021,549**

All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

(e) Loans and other transactions

No loans have been made to the Key Management Personnel other than advances made for the purpose of meeting business expenses incurred in performing their duties. No interest is being charged on these amounts. There are no other transactions with the Key Management Personnel other than fees paid to Arun Advisors Limited in the sum of $14,931 for consultancy services regarding the Company's hedging strategy. Mr Adam Jolliffe is a director of Arun Advisors Limited.

Note 34. Business Combinations

Acquisition of Apache China Corporation LDC

On 8 August 2006, ROC acquired 100% of the shares of Roc Oil (Bohai) Company (formerly Apache China Corporation LDC), an unlisted private company based in the Cayman Islands whose only asset was a 24.5% operating interest in the Zhao Dong Block in the Bohai Bay, offshore China.

The total cost of the acquisition was $359,845,000, which was financed via a 12 month loan provided by Commonwealth Bank of Australia.

The fair value of the identifiable assets and liabilities of the company were:

	A$'000
Cash and cash equivalents	22,074
Trade and other receivables (see note (a) below)	118,573
Inventories	7,077
Oil and gas assets	365,328
Exploration and evaluation expenditure	87,471
Provisions (see note (a) below)	(115,516)
Deferred tax liabilities	(125,162)
Fair value of identifiable net assets	**359,845**

Note:
The carrying values determined in accordance with Australian Accounting Standards has not been disclosed as the company previously was reporting under US GAAP with different accounting policies to ROC and it is impracticable, retrospectively, to apply these accounting policies.

The cash outflow on acquisition is as follows:

Net cash acquired with the subsidiary	22,074
Cash consideration	(359,845)
Total consolidated cash outflow	**(337,771)**

From the date of the acquisition the company has contributed $5,884,000 profits to the Group.

If the acquisition had taken place at the beginning of the year, the loss for the Group would have been $45,103,000 and revenue would have been $229,442,000.

(a) Texaco China BV and New XCL-China LCC have made separate claims against Roc Oil (Bohai) Company, formerly Apache China Corporation LDC. The claims are recorded as a pre-acquisition provision of $116 million (US$88 million). Apache Corporation has indemnified Roc Oil Holdings (Cayman Islands) Company and in Roc Oil (Bohai) Company for liabilities arising in relation to these claims together with any associated costs. ROC believes there is no net exposure and a pre-acquisition receivable is recognised for these indemnities for a corresponding amount.

Note 35. Contingent Liabilities

Roc Oil (WA) Pty Limited is required to pay ARC Energy NL an amount of up to $1.75 million (2005: $1.75 million) should a new field be discovered in WA-286-P other than Cliff Head.

Roc Oil (Cabinda) Company is liable to pay to Simmons Drilling (Overseas) Limited, the supplier and operator of the drilling rig to be used in the Angola drilling programme, a termination fee of up to $3.46 million (2005: Nil) if the company terminates the agreement within the first 12 months of the two year term. The termination fee will reduce for each day the operating rates are paid under the agreement.

In acordance with normal oil and gas industry practice, the Group has entered into joint venture operations and farm-in agreements with other parties for the purpose of exploring and developing its licence interests. If a party to a joint venture operation defaults and does not contribute its share of joint venture operation obligations, then the other joint venturers are liable to meet those obligations. In this event, the interest in the licence held by the defaulting party may be redistributed to the remaining joint venturers.

The Company's present intention is to provide the necessary financial support for all Australian incorporated controlled entities, whilst they remain controlled entities, as is necessary for each company to pay all debts as and when they become due.

Note 36. Financial Risk Management Objectives and Policies

(a) Financial risk management objectives

The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The use of financial instruments is governed by the entity's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

The Group's activities expose it primarily to the financial risk of changes in commodity prices, exchange rate movements and interest rates. The Group may enter into various derivative financial instruments to manage its exposure to these risks.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability, are disclosed in Note 1.

(c) Commodity price risk

The Group is exposed to the movement in commodity prices. In order to manage this exposure and its effect on sales revenue, the Group has entered into certain derivatives instruments, in relation to the commodity price of a proportion of its forecast production.

These derivatives tend to be priced using benchmarks which correlate as far as possible to the underlying oil revenue (see Note 11).

(d) Foreign currency risk

The exposure to exchange rate movement is mitigated to some extent by the natural currency hedges that exist due to Group sales revenue being mainly denominated in US$ and holding part of its short term deposits in US$ offset by operating, development and exploration costs incurred in US$. Debt obligations are also denominated in US$.

At 31 December 2006 and 2005, the Company did not have any foreign currency derivatives.

(e) Interest rate risk

The Group's only material exposure to interest rate risk at 31 December 2006 is cash of $60.6 million (2005: $66.4 million) and a bank loan of $173.7 million (2005: Nil). The average interest rate received for its cash was 4.94% (2005: 5.25%) per annum and the average interest paid on its bank loan was 6.93% (2005: Nil).

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group measures credit risk on a fair value basis.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

(g) Fair value of financial instruments

The Directors consider that the carrying amount of the financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market is determined with reference to the quoted price; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Note 37. Subsequent Events

ROC's wholly owned subsidiary, Roc Oil (China) Company, operator of the Block 22/12 Joint Venture, completed the Appraisal Report for the Wei 6–12 South and Wei 6–12 oilfields in the Beibu Gulf, offshore China. Based upon the oil in-place figures in the report and model-generated recovery factors, it is estimated that the recoverable oil at the Wei 6–12 South and Wei 6–12 oilfields ranges from a most likely case of 19 MMBO to an upside case of 27 MMBO.

Effective 5 January 2007, formal consent was received relating to the relinquishment of the WA-349-P permit in the Perth Basin.

On 9 January 2007, ROC was advised that oil production at the Zhao Dong C & D Oil Fields, Bohai Bay, offshore China could be increased subject to an overall fluid rate constraint. In February this constraint was lifted.

Note 38. Additional Company Information

Roc Oil Company Limited is a public company listed in Australia on the ASX and in the UK on the Alternative Investment Market of the London Stock Exchange, and incorporated in Australia and operating in Australia and overseas.

The registered office and principal place of business is:

Level 14, 1 Market Street
Sydney NSW 2000
Australia.

Additional Information

ROC RESERVES ANALYSIS (UNAUDITED)

Summary Proved and Probable Working Interest Reserves	**MMBBL**	**BCF**	**Total MMBOE**
Opening balance	14.5	3.4	15.1
Additions	14.7	–	14.7
Reserve revisions	(0.7)	1.9	(0.4)
Production	(2.0)	–	(2.0)
Closing balance	**26.5**	**5.3**	**27.4**

Analysis of Proved and Probable Reserves	**MMBBL**	**BCF**	**Total MMBOE**
Zhao Dong (C & D Fields)	13.4	–	13.4
Zhao Dong (C4 Field)	2.0	–	2.0
Cliff Head	5.1	–	5.1
Chinguetti	1.3	–	1.3
Blane	3.7	0.7	3.8
Enoch	0.9	4.6	1.7
Keddington	0.1	–	0.1
Closing balance	**26.5**	**5.3**	**27.4**

Note:

1 MMBOE = 6 BCF

In accordance with ASX Listing Rules and AIM Rules, the reserves information in this Report is based upon information compiled, reviewed and signed off by Mr Neil Seage, Bachelors of Engineering (Hons) and Arts; Master of Business Administration, Chief Reservoir Engineer, Roc Oil Company Limited. Mr Seage has at least five years' relevant experience within the sector and consents to the information in the form and context in which it appears.

ROC LICENCES AT 31 DECEMBER 2006 (UNAUDITED)

Country	Block	Field/Discovery	ROC Interest %	Operator
Australia	WA-286-P		37.50	Roc Oil (WA) Pty Limited
	WA-31-L	Cliff Head	37.50	Roc Oil (WA) Pty Limited
	TP/15		20.00	Roc Oil (WA) Pty Limited
	WA-325-P		37.50	Roc Oil (WA) Pty Limited
	WA-327-P		37.50	Roc Oil (WA) Pty Limited
	WA-226-P[(5)]		7.50	Origin Energy Developments Pty Ltd
	WA-349-P[(1)]		50.00	Roc Oil (WA) Pty Limited
	WA-351-P		20.00	BHP Billiton Petroleum Limited
	EP413		0.25	Origin Energy Developments Pty Ltd
	L14	Jingemia	0.25	Origin Energy Developments Pty Ltd
Equatorial Guinea	H/15 and H/16		18.75	Roc Oil (Equatorial Guinea) Company (Technical Operator)
Mauritania	Area A	Banda	4.16	Woodside Mauritania Pty Ltd
	Area B (Chinguetti)	Chinguetti, Tiof, Tiof West, Tevét	3.69/3.25[(3)]	Woodside Mauritania Pty Ltd
	Area C Block 2		3.20	Woodside Mauritania Pty Ltd
	Area C Block 6		5.00	Woodside Mauritania Pty Ltd
	Block 1		2.00	Dana Petroleum (E&P) Limited
	Block 7	Pelican	4.95	Dana Petroleum (E&P) Limited
	Block 8[(6)]		5.00	Dana Petroleum (E&P) Limited
Angola	Cabinda South Block		60.00	Roc Oil (Cabinda) Company
China	Beibu Gulf Block 22/12	12-8, 6-12, 6-12 South	40.00	Roc Oil (China) Company
	Zhao Dong Block	C & D Fields, C4 Field	24.50/11.58[(4)]	Roc Oil (Bohai) Company
Onshore UK	PEDL002		5.00	Star Energy (East Midlands) Ltd
	PEDL005 (Remainder)	Keddington	100.00	Roc Oil (GB) Limited
	PEDL030	Cloughton	100.00	Roc Oil (GB) Limited
UK North Sea	P111 (Block 30/3a)	Blane	15.24/12.50[(2)]	Talisman Expro Limited
	P219 (Block 16/13a)	Enoch, J1	15.00/12.00[(2)]	Talisman Expro Limited
	P755 (Block 30/22b)		12.00	Maersk Oil North Sea UK Limited

(1) Surrendered 5 January 2007 subject to government consent.
(2) Unitised interest subject to redetermination following commencement of production in Blane Oil Field and Enoch Oil and Gas Field.
(3) Post-government back-in in Chinguetti Oil Field.
(4) Unitised interest in the C4 Field subject to redetermination following commencement of production.
(5) ROC has withdrawn effective 5 March 2007.
(6) Dana Petroleum (E&P) Limited assignment of 3% interest to ROC was concluded 15 January 2007.

Shareholder Information

1. Ordinary Share Capital

As at 8 March 2007, the Company had on issue 298,196,006 fully paid ordinary shares held by 19,456 shareholders.

All issued fully paid ordinary shares carry one vote per share.

2. Options

As at 8 March 2007, the Company had the following unquoted options: 1,765,400 options under the Employee Share Option Plan held by 71 optionholders and 9,557,200 options under the Executive Share Option Plan held by 39 optionholders.

During the year ended 31 December 2006:

- 63,000 employee share options and 699,000 executive share options lapsed or were cancelled; and
- 249,500 options issued under the Employee Share Option Plan and 772,800 options under the Executive Option Scheme were exercised.

Options do not carry any voting rights or rights to dividends.

3. Distribution of Share and Option Holders

Holding as at 28 February 2007	Shareholders	Employee Options	Executive Options
1 – 1,000	3,710	6	–
1,001 – 5,000	9,031	30	–
5,001 – 10,000	3,524	2	1
10,001 – 100,000	2,969	31	6
Over 100,000	155	2	32
Total	19,389	68	39
Shareholders holding less than a marketable parcel	98	–	–

4. Substantial Shareholders

Substantial shareholders as disclosed in substantial shareholder notices given to the Company are as follows:

Shareholder	Number Held (Fully Paid Ordinary Shares)	% of Class Held[1]
J P Morgan Chase & Co	22,858,223	7.66
Commonwealth Bank of Australia	14,997,847	5.03
Merrill Lynch & Co., Inc.	11,338,421	3.88

Note:

(1) Calculated against issued share capital as at 8 March 2007.

Shareholder Information

5. Twenty Largest Shareholders as at 28 February 2007

Shareholder	Number Held	%	Rank
Computershare Clearing Pty Ltd	39,757,645	13.33	1
Westpac Custodian Nominees Limited	24,030,017	8.06	2
National Nominees Limited	18,212,933	6.11	3
J P Morgan Nominees Australia Limited	16,620,613	5.57	4
Citicorp Nominees Pty Limited	11,214,193	3.76	5
Citicorp Nominees Pty Limited (CFS W/Sale GBL Res Fund A/C)	4,964,519	1.67	6
Celtic Energy Pty Limited	4,470,719	1.50	7
Cogent Nominees Pty Limited	3,132,629	1.05	8
Bond Street Custodians Limited	2,760,152	0.93	9
Cogent Nominees Pty Limited SMP Accounts	2,485,235	0.83	10
HSBC Custody Nominees (Australia) Limited	2,326,667	0.78	11
Citicorp Nominees Pty Limited (CFS Future Leaders Fund A/C)	2,181,386	0.73	12
ANZ Nominees Limited Cash Income A/c	1,831,152	0.61	13
HSBC Custody Nominees (Australia) Limited - GSI ECSA	1,719,892	0.58	14
Mirrabooka Investments Limited	1,425,000	0.48	15
Sandhurst Trustees Ltd	1,407,062	0.47	16
Merrill Lynch (Australia) Nominees Pty Ltd	1,203,618	0.40	17
Forty Traders Limited	1,166,000	0.39	18
HSBC Custody Nominees (Australia) Limited - A/C 2	1,080,179	0.36	19
Abned Nominees Pty Limited	971,823	0.33	20
Top 20 Total	**142,961,434**	**47.94**	

Glossary and Definitions

A$, $ or **cents**	Australian currency.
A-GAAP	Australian Generally Accepted Accounting Principles.
A-IFRS	Australian equivalents to International Financial Reporting Standards.
AIM	Alternative Investment Market of the London Stock Exchange.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange.
BBLs	Barrels, equivalent to 0.159 cubic metres.
BCF	One billion cubic feet of natural gas.
BOE	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time.
BOEPD	Barrel of oil equivalent per day.
BOPD	Barrel of oil per day inclusive of NGLs.
GST	Goods and services tax.
km	Kilometres.
m	Metre.
MCF	One thousand cubic feet of natural gas.
MM	Millions.
MMBBL	One million barrels of oil.
MMBOE	One million barrels of oil equivalent.
MMSCFD	One million standard cubic feet of natural gas per day.
NGL	Natural gas liquid.
pound or **£**	UK pounds.
probable reserves	Probable reserves are less certain than proved reserves and can be estimated with a degree of certainty sufficient to indicate they are more likely to be recovered than not. Note that probable reserves have not been risked.
proved reserves	Proved reserves can be estimated with reasonable certainty to be recoverable under current economic conditions. Current economic conditions include prices and costs prevailing at the time of the estimate. Proved reserves may be developed or undeveloped.
PSA	Production sharing agreement.
PSC	Production sharing contract.
Rights Issue	A fully underwritten 3 for 8 Renounceable Rights Issue.
ROC	Roc Oil Company Limited.
sq km	Square kilometres.
UK	United Kingdom.
US$	United States dollars.
2D	Two dimensional.
3D	Three dimensional.
2P	Proved and probable reserves.

Notes

Directory

Board of Directors
Mr Andrew J Love – *Chairman*
Mr William G Jephcott – *Deputy Chairman*
Dr R John P Doran – *Chief Executive Officer and Director*
Mr Richard J Burgess – *Director*
Mr Ross Dobinson – *Director*
Mr Sydney J Jansma Jr – *Director*
Mr Adam C Jolliffe – *Director*

Advisors to the Board
Mr Ahmed E Seddiqi Al-Emadi
Dr A A Al-Quaiti

Company Secretary
Ms Sheree Ford

SENIOR MANAGEMENT

Mr Bruce Clement
Chief Operating Officer

Mr Simon Daniel
Asset Manager – Cliff Head Project

Dr R John P Doran
Chief Executive Officer and Director

Dr Qing Fang
In-Country Manager, Beibu Gulf Project

Mr Damian Fisher
General Manager – External Affairs & Investor Relations

Ms Sheree Ford
General Counsel and Company Secretary

Mr Olivier Gentizon
Equatorial Guinea Representative

Dr Kevin Hird
General Manager – Business Development

Mr Wes Jamieson
General Manager – Exploration

Mr John Mebberson
Regional Manager – Australia & Asia

Dennis Paterson
President – Roc Oil (China) Company

Mr Neil Seage
Chief Reservoir Engineer / Corporate Health Safety and Environment Manager

Mr Chris Way
General Manager – Operations

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Cabinda
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Great Britain
Computershare Investor Services plc
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Bristol
BS13 8AE

STOCK EXCHANGES

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Australia
ASX Code: ROC

Alternative Investment Market (AIM) of the London Stock Exchange
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AIM Code: ROC

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Back cover: The Zhao Dong production and drilling facility, Bohai Bay, offshore China.